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TABLE OF CONTENTS

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Publications of the Economic Intelligence Service of the League of Nations.

Monthly Bulletin of Statistics.

Statistical Year-Book of the League of Nations.

World Production and Prices.

Review of World Trade.

Balances of Payments.

International Trade Statistics.

Commercial Banks.

WORLD ECONOMIC SURVEY
1932-33

PREFACE

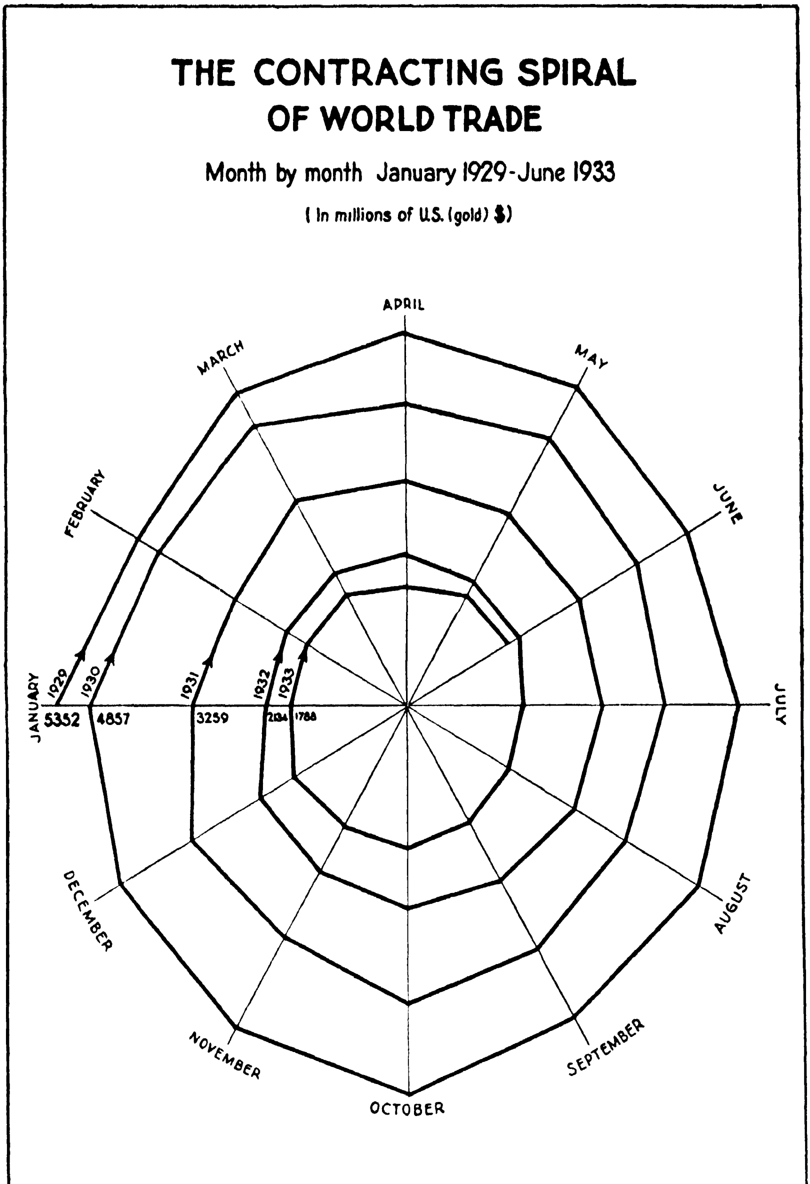
The present *Survey* has been prepared by Mr. J. B. Condliffe, of the Economic Intelligence Service of the League of Nations. It is the second of an annual series undertaken in consequence of resolutions passed by the Assembly of the League in 1930 and 1931.

While this present work by Mr. Condliffe is based mainly on data collected by the Economic Intelligence Service of the League of Nations, valuable assistance has been obtained from other sources and particularly from the International Labour Office.

The book is intended to afford an account of recent developments intelligible to the lay reader. For more detailed and technical information, the reader should refer to the publications of the Economic Intelligence Service, a list of which is given on page 6.

A. LOVEDAY,
Director of the Financial Section and Economic Intelligence Service.

Geneva, August 20th, 1933.



Note. — Cf. Monatsberichte des Österreichischen Institutes für Konjunkturforschung. Nr. 4, 1933, p. 63.

Chapter I.

A TROUBLED YEAR.

THE SCOPE OF THE SURVEY.

Any attempt to write a summary narrative of economic developments in a period when events moved as rapidly as in the year 1932 and the first months of 1933 must be to some extent unsatisfactory. The final chapter of the preceding *Survey* for 1931-32 was written in July 1932, at a time when there seemed some prospect of economic improvement. Subsequent months did not bear out the promise of revival. Prices declined again, international trade, and economic activity generally, became more restricted and the financial organisation of the world sustained a fresh series of blows in the early months of 1933. The chapters which follow have been written between the months of February and July 1933. During those months, events have moved rapidly. The American banking difficulties, and the departure of the United States from the gold standard, discussions concerning the future of war debt payments, and the opening of the Monetary and Economic Conference on June 12th, to say nothing of important developments in the political sphere, have created a situation which renders the task of the contemporary economic historian more than usually difficult.

The aim of the present *Survey*, however, like that of its predecessor, is to record events rather than attempt a final or even an interim judgment upon them. It is inevitable that some elements of judgment must enter into the selection, arrangement and analysis of the events recorded. It is impossible to record more than a fraction of the happenings of such a troubled period, and selection and arrangement are, of course, necessary; but, in selecting and arranging the material to be used, a few simple principles have been followed. Attention has been concentrated upon facts rather than opinions, upon decisions rather than plans, and upon the statistical evidence of economic activity rather

than upon legislation. Undue preoccupation with the dramatic financial developments in the great industrial countries has been avoided as far as possible and an effort has been made to view the whole world, rather than special areas, as the theatre of the developments to be described. No attempt has been made to present anything like a complete picture of national economic developments. Emphasis is laid rather upon the international aspects of these developments and illustrations are drawn from one country or another merely as they have proved accessible or convenient. There is, it is hoped, no national bias or prejudice either in the choice or in the presentation of such illustrative examples.

In such a troubled period, political forces exercise an influence upon economic development which no realistic survey of events can ignore. If these political forces are treated in the present volume only in so far as they throw light on economic problems, it is because there are many other sources in which a more adequate treatment may be found. The aim of this *Survey* is not primarily to diagnose causes or to weigh political and economic influences, but to record and interpret economic developments. The basic material for this purpose consists, not of parliamentary discussions, but rather of the statistics which reflect the economic activities of the business world. In the same way, no attempt is made to deduce conclusions or to suggest policies, though, at various points, certain problems emerge from the facts recorded.

In the main, the *Survey* deals with the year 1932 and the first half of 1933. The previous volume included some historical and analytical material which it is unnecessary to repeat ; but, where new topics have been dealt with, sufficient historical material is included to give an adequate background for the consideration of recent events. The present chapter is devoted to a rapid summary of the outstanding events from the summer of 1932 to the end of March 1933. The culmination of the American banking crisis at that time marks a significant division which it is convenient to observe. The chapters which follow analyse in more detail the developments of this period ending in March 1933. They are arranged by economic subjects rather than chronologically, but, as the frequent cross-references indicate, economic problems cannot be treated independently of one another. The arrangement of the chapters, beginning with Prices and continuing with Production, Wages, Profits, Public Finance, International Trade, Banking, Debts and Balances of Payments, follows an order which is logical, but is only one of many such arrangements that might have been chosen. The economic organisation of the world presents one great problem with many aspects, almost any one of which might reasonably be chosen as the point from which

to begin an analysis of the problem as a whole. There is, perhaps, a distinction, of degree rather than of kind, to be drawn between the first five and the last four subjects mentioned. The former are less, and the latter more, international, both in their material and in their implications. Indeed, the contrast between the persistency with which national organisation of the primary economic processes is maintained and the flexible adjustments of international equilibrium rendered increasingly necessary by the beginnings of an international financial system lies behind much of the present disturbance of the economic order. While any adequate consideration of this large problem lies outside the scope of the *Survey*, its manifestations are implicit in the facts recorded.

The final chapter is a sequel to the first, giving in rapid summary an outline of the principal events in the second quarter of 1933, and estimating the economic situation in July on the basis of such statistical and other evidence as was available at that time.

The Depths of Depression.

In the early summer of 1932, economic activity in the world as a whole had touched depths unprecedented during the present depression, and international economic organisation was in a state of extreme confusion. It is still too soon, early in 1933, to be sure that the depths reached in the middle of 1932 were the lowest point. An improvement in the autumn was followed, particularly in the United States, by a further setback in the closing months of the year. Even during the brief period of improvement, there were persistent dragging factors of deterioration, especially the worsening of public finance, the burden of excessive debt, currency instability and a continued narrowing of international markets. In the last two months of 1932, these factors of deterioration appeared more clearly. But not all of the autumn improvement was lost when prices began to fall again and production lagged in the early winter. It is obvious that, in the second half of 1932 and the beginning of 1933, there were forces making for economic stabilisation, if not recovery ; but they were held in check by obstacles which had piled up, or had not been cleared away, in the course of three years of depression. An examination of the economic situation in the middle of 1932 is therefore a necessary preliminary to any understanding of subsequent developments.

The facts of economic depression at that time were given in some detail in the *Survey* for 1931-32. Falling prices, declining production, vanishing world trade, accumulating debt, increasing unemployment had presented an almost unvarying and

melancholy progression for the better part of three years. There had been few and brief occasions when some slackening in the rate of decline had appeared to hold promise of stabilisation or return to more satisfactory conditions. Slight signs of improvement in the spring of 1930 and again in the early spring of 1931 had been overwhelmed by apparently irresistible economic pressure, and in May 1931 a financial panic began which was to shake even the most strongly organised countries and drive a great number off the international gold standard. As this panic swept from country to country, hurried measures of national economic defence were taken which inevitably resulted in further damage to the already weakened international economic connections. By the middle of 1932, the panic period appeared to be over; but an exhausted world was left to contemplate the ruin that had followed in the wake of the storm.

Two aspects of the damage caused by the financial panic need to be clearly distinguished. In the first place, economic activity, already at a low ebb after years of depression, was reduced to levels which could hardly have been deemed possible in the years before 1929. It would serve no useful purpose to reproduce again in great detail the statistical evidence of suspended economic animation in the summer of 1932. Production in most industrial countries appeared to reach its lowest point in the months of July and August, at levels ranging from about 25 per cent below peak production in the case of the United Kingdom to about 55 per cent below the peak in the case of the United States of America. The agricultural countries, particularly those in the southern hemisphere, did not suffer from decreased production in the same way, but, on the other hand, were hit very hard by the heavy fall in raw-material prices. Estimates of the reduction in national incomes caused by the combination of these factors are difficult to obtain; but in many countries the fall in the national income by the middle of 1932 seemed to be in the neighbourhood of 40 to 50 per cent. [1] Such an order of magnitude obviously indicates extremely difficult problems of income distribution and public finance.

Unemployment in the spring of 1932 was conservatively estimated by the Director of the International Labour Office as directly involving at least twenty-five millions of workers. International trade in the first half of 1932 had fallen to less than 40 per cent of its value in the first half of 1929. [2] World stocks of raw materials had continued to pile up until they were in the aggregate approximately double what they had been in

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[1] Cf. estimates given in Chapter IV.
[2] Cf. Chapter VII.

1925.[1] Unemployed workers and factories were matched by unemployed capital. The Bank for International Settlements estimated the short-term credit which had accumulated in the money markets of the world at 50 milliards of Swiss francs. Further statistical estimates might be quoted ; but there is little need to emphasise the low ebb which economic activity had reached in the middle of 1932.

What was even more serious than the damping down of economic activity in almost every direction was the disorganisation and partial destruction of the delicate machinery of international economic and financial co-operation. There were a great many indications of national economic and financial disorder; but, serious as these were, they were probably less dangerous for the future than the disruption of international economic equilibria. It was the decline of international trade to a mere fraction of its former value, the stoppage of the circulation of capital, and exchange instability, all of which were part cause and part effect of the disorder into which the balances of international payments had fallen, which offered the most difficult obstacles in the middle of 1932 to any lasting revival of economic activity.

It is not suggested that these aspects of breakdown should be regarded as the ultimate causes of the depression. They were rather symptoms, the causes of which are to be sought in earlier and more fundamental phenomena. At the stage which the depression had reached in mid-1932, however, exchange instability, restricted trade, disorganised capital markets and the general disturbance of equilibrium between national price systems threatened to become in their turn a cause of further depression.

All of these aspects of breakdown, it should be emphasised, were practically worldwide. When the United Kingdom abandoned the gold standard in September 1931, every creditor or debtor in any country who held British or foreign contracts in terms of sterling and all traders in the British market were immediately affected. Almost simultaneously, a great number of other countries left the gold standard and this circle widened constantly. Depreciation of the exchanges below the sterling level became a serious problem in countries as far apart and as different in economic structure as Greece, Chile, Japan, Australia and New Zealand. Later, in January 1933, New Zealand's action in lowering her exchange rate to Australia's level was followed within a few days by similar action in Denmark.

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[1] Cf. Chapter III.

The other aspects of breakdown could be illustrated equally well by examples drawn from very different quarters of the globe. The number of countries cited below as imposing trade restrictions is fair evidence of the universality of this method of economic defence.

The stoppage of capital movements, the freezing of short-term indebtedness and difficulties in balancing international payments also were problems by no means confined to a few European countries. By the end of 1932, there were moratoria on the foreign service of the public debt in seventeen countries and moratoria on private debt service in seven others. Apart from the countries which had resorted to this extreme step, there were many others, particularly among the agricultural countries of the southern hemisphere, which found the fiscal burden of external debt payments, already a crushing proportion of their shrunken export values, increased very considerably by the depreciation of the external value of their currencies below that of the currencies in which their debts were held.

It is difficult to discuss the phenomena presented by this vicious circle, in which trade restrictions, declining trade, distorted balances of payments, frozen debts and exchange instability reacted unfavourably one upon the other, in any order which does not give a misleading impression of priority and causation. The historical events which led first to economic strain and then to financial panic were treated in the first two chapters of the *Survey* for 1931-32. Stress was there laid upon the intricate and complex action and reaction between the various phenomena that lay behind the breakdown. International trade was declining, international investment had virtually ceased and the balancing of international accounts was becoming increasingly difficult long before the financial panic swept so many currencies off the gold standard. The breakdown of the international monetary standard was an effect rather than a cause of these difficulties.

It is arguable indeed that the widespread abandonment of the international gold standard relieved the situation, at least temporarily, by reducing the burden of external indebtedness of many countries in so far as their debt was held in terms of the currencies that were depreciated. Those whose domestic currencies for various reasons went on to depreciate below the level of the currencies in which their debts were due, on the other hand, found their external burden increased. Whether the economic situation in the middle of 1932 would have been better or worse if the gold standard had not been abandoned so widely is an academic question to which no answer need be attempted here. But it is at least clear that the sequence of

events summarised below cannot be ascribed solely to the abandonment of the gold standard. It is probable that trade would have continued to decline during 1932, prices to fall and investment to remain paralysed, if it had proved possible to retain the gold standard. These things were happening before the breakdown of that standard and were indeed among the causes of its breaking down.

At the same time, it is equally clear that the addition of widespread exchange instability to the ills from which the world was suffering greatly complicated the situation. Currency devaluation or depreciation by a single country to a fixed point followed by stabilisation and the achievement of new international equilibria is a different proposition from the inauguration of a period of unstable exchanges during which it is impossible to do international business on any rational basis because the relative scales of value are constantly changing. The most destructive development during 1932 was exchange instability. The capacity of one country to sell in another's market, or its potentialities as a market for the other's exports, to say nothing of the valuation of its international debts or credits, was likely to be changed quickly and radically by fluctuations in the rates at which the different currencies could be exchanged.

Fluctuating exchange rates aggravated by speculation and non-economic capital movements, the possibility of international competition in cutting export costs by allowing currencies to depreciate, hurriedly improvised but drastic measures of trade restriction thrown up partly as a defence against such competition, renewed deflationary pressure and banking crises and rigid exchange controls to protect the weaker currencies against this fresh derangement of international economic equilibria had created a thoroughly unstable situation by the middle of 1932. The uncertainties of such a situation were not only a serious obstacle to economic recovery, but presented a constant threat of further deterioration. More than half the countries of the world had formally abandoned the gold standard and most of the others maintained it, or its semblance, only by rigid exchange controls. Only a handful of countries were able to retain a free gold standard. The countries off gold, while their domestic situation had been temporarily relieved, were confronted by an accelerated fall of gold prices and a further drastic curtailment of trade. On the other hand, their efforts to hold the external values of their currencies stable were menaced by flights of capital which were apt to assume large proportions suddenly as the security of one financial centre or another appeared to be enhanced or jeopardised. The relief obtained from the abandonment of the gold standard by the countries off gold

and by the world as a whole therefore proved disappointing. Prices did not rise and trade was drastically curtailed, while exchange instability and exchange controls imposed fresh obstacles to capital movements. The course of prices in both gold and paper standard countries is analysed in a later chapter. Here it is sufficient to state that, after an initial rise in paper prices as each country left the gold standard, these paper prices began to fall again in conformity with the downward drift of the gold price-levels.

Both the volume and the value of international trade, already seriously diminished before the financial panic, shrank still further. In the third quarter of 1932, the value of world trade was less than 35 per cent of what it had been in the corresponding quarter of 1929. The decline was not evenly distributed, since the prices of raw materials and agricultural products generally had fallen more than those of finished manufactures, so that the countries exporting mainly raw materials were specially hard hit. At the low point in the third quarter of 1932, the international trade of the European countries fell for the first time below 40 per cent of the 1929 level, while that of the rest of the world, including North America, fell below 30 per cent.

There were two elements in this decline, the fall in average prices which appears to have been about 50 per cent, and a reduction of about 25 per cent in the actual quantum of goods exchanged. The exchange of three-fourths of the former quantity of goods, at about half the prices ruling three years before, yielded a total value of world trade little more than a third of the 1929 monthly average.

Both of these elements were largely due to the progressive constriction of world markets by the imposition of emergency trade restrictions to meet the financial panic. The multiplicity and variety of these emergency restrictions after September 1931 is difficult to summarise in a few words, but a survey made at the end of 1932 yielded the following main conclusions. Thirty-five countries were off the gold standard [1] and twenty-seven, including nine that were nominally still on the gold standard, were officially exercising exchange control, while unofficial controls were employed in three other countries, and, in some which remained theoretically on the unrestricted gold standard, the control of commodity imports by prohibitions was virtually equivalent to an exchange control. In the sixteen months after

[1] League of Nations : *Monthly Bulletin of Statistics*. Cf. also *Index*, Vol. VIII, No. 85, January 1933, pages 6 to 13, and Samuel Montagu & Co.'s *Weekly Review*, January 5th, 1933. The exact number is difficult to determine, since the position of several countries, while legally unchanged, is in fact modified.

September 1st, 1931, general tariff increases had been imposed in twenty-three countries, in three of them twice during the period — with only one case of a general tariff reduction. Customs duties had been increased on individual items or groups of commodities by fifty countries, in most cases by a succession of enactments which, in several countries, numbered over twenty tariff changes in the sixteen months. Import quotas, prohibitions, licensing systems and similar quantitative restrictions, with even more frequent changes in several important cases, had been imposed by thirty-two countries. Import monopolies, for the most part of grains, were in existence in twelve countries ; milling or mixing regulations in sixteen others. Export premiums were being paid in nine, while export duties or prohibitions had been imposed in seventeen.

This bare list is utterly inadequate to portray the harassing complexity of the emergency restrictions that were superimposed upon an already fettered world trade after the period of exchange instability was inaugurated by the abandonment of the gold standard by the United Kingdom in September 1931. By the middle of 1932, it was obvious that the international trading mechanism was in real danger of being smashed as completely as the international monetary system had been.

The circulation of capital both on long and on short term had been impaired early in the depression ; but, by the middle of 1932, the financial panic had brought about an almost complete paralysis of capital movements and had gone far to impair the service of existing debt in many countries. Over-indebtedness had induced an increasing number of countries to impose rigid exchange controls, in an effort to preserve currency stability. The steady diminution of international trade referred to above was largely responsible for this and for the " freezing " of short-term debts, since amounts of short-term indebtedness adequate to finance trade in its 1929 volume became redundant, but difficult to repatriate, when trade fell to 1932 levels.

In the middle of 1932, therefore, there was a widespread realisation of the serious extent to which the international economic and financial system had broken down. The fear was freely expressed that the breakdown might become irreparable. To the decline of activity and the confusion of relationships, there was added general pessimism and fear of a more complete collapse. Yet, within a few months, despite the persistence of economic conditions that were on the whole little better and in some respects even worse than in the summer, a feeling of confidence began to return and the number of experts willing to believe that the bottom of the depression had been touched steadily increased. The turning-point, psychologically, if not

economically, came in the late summer. During the autumn what was popularly known as a " boomlet " developed in the United States, and, though subsequent experience was chastening, the undercurrent of optimism, not wholly unwarranted by actual experience, persisted into 1933.

A Limited Autumn Revival.

One of the characteristic features of such a troubled year as 1932 proved to be is the uncertainty of statistical measurements that could formerly be relied upon to indicate with fair precision at least the general trend of economic events. With the common measure of value abandoned over a great part of the trading world, and the normal mechanism for restoring equilibrium largely broken down, the interpretation of statistical guides and indices became much more speculative. Economic statistics are always relative ; but, in 1932, widespread exchange instability made their interpretation still more difficult. Not only were there many elementary pitfalls such as quotations in the same unit of currency as before meaning very different things because that currency had depreciated, but the subtler effects of such depreciation were apt to escape notice in many different directions. For example, the price of representative international bonds which were formerly quoted in the main financial centres at prices which did not differ by more than the cost of transmitting gold, after the abandonment of the gold standard, differed, even between free exchange markets, by margins which, at the low prices current, represented up to 1 per cent difference in the yields of the bonds. Such wide differences were due almost wholly to the expectation of movements in the foreign exchanges changing the relation of the currencies in question. In the same way, the constriction of international trade, the paralysis of the international capital markets, the uneven fall in prices both as between different commodity markets and internationally, all made the interpretation of current statistics by pre-depression conceptions a hazardous procedure. There were particular difficulties in the case of index-numbers and the use of percentages generally. A rise in prices or an increase of production measured as a percentage of the extremely low levels reached in mid-1932 appeared to be a much more substantial measure of recovery than if the same small rise was measured as a percentage of the boom levels of 1929 or even the levels of mid-1931. There was more than merely statistical difficulty involved in this problem of measurement. If every part of the economic organisation had been adjusted to the levels of prices ruling at the low

point in mid-1932, a rise of say 10 per cent from that low point might have been regarded as very encouraging. But in so far as many parts had remained fixed somewhere between 1929 and 1932 levels, such a rise, which, on the 1929 basis, was only a fraction of 10 per cent, might well appear entirely inadequate to presage a general recovery.

In any attempt, therefore, to estimate the significance of the somewhat confused economic tendencies in the latter half of 1932 and the first months of 1933, there must inevitably be a considerable margin of uncertainty and many qualifications. A day-to-day interpretation of current events built up a general notion of revival in the autumn of 1932, followed by a substantial set-back in the closing months of the year. The results of the year 1932 as a whole were generally interpreted in the reviews of early 1933 as not unsatisfactory, in the sense that the lowest depths appeared to have been reached and the worst experiences survived. This rather more confident note was perhaps clearest in the countries which had abandoned the gold standard, and particularly in the United Kingdom which entered 1933 with a strong upward pressure on her currency. Even in the United States, which, of all the gold countries, was hardest hit at the turn of the year, there were not wanting expressions of confidence that, for some months, economic activity had been " bumping along on the bottom " of the depression. It is obvious, however, that such interpretations must necessarily reflect the prevailing business tone rather than exactly measurable facts. There seems little doubt that, for two or three months after July 1932, business confidence rose in almost every country ; but that the events of succeeding months, from October onwards, had a sobering effect and that the revival of confidence was progressively checked thereafter. There was in the early months of 1933 little sign of over-optimism, but rather a mixed attitude of hope that the worst was past and of fear lest delayed recovery might open up still worse cracks in the economic system.

The substantiation or correction of this interpretation of current events by somewhat later analysis of the available statistical information is not altogether an easy task. As the following chapters bear ample witness, the course of production, prices, trade and other economic phenomena was extremely confusing in this period. In the pages which follow, however, an attempt is made to set out briefly the major qualifications which need to be made before accepting the current notion of autumn revival and later setback. The more detailed justification of these qualifications will be found in succeeding chapters.

The most substantial gains in the autumn of 1932 were registered in the security markets, which rose sharply, especially

in North America and the United Kingdom, during August and September. There were substantial advances recorded in the average levels of wholesale commodity prices in the same countries during these months. A definite increase in the value and volume of industrial production began in most countries about this time and the total value of world trade rose from July to October also. Unemployment is much affected by seasonal fluctuation, but the autumn decrease and summer increase, when corrected for seasonal variations, appeared in many countries to show improvement which was correlated with the upward tendency in production and with some indications that raw-material stocks were moving from producers to manufacturers. These were the principal signs of such economic improvement as took place in the autumn and early winter. Their significance and duration warrants closer statistical analysis in an effort to discover the main reasons for improvement, its limits, and the causes of the later setback.

The exact date of the turn differs from country to country, but the monetary and financial changes appear to have generally, though not invariably, preceded the improvements in production. The first recognisable sign of recovery, apart from the stabilisation of banking conditions referred to later, was a halt in the falling tendency of commodity prices. Many important commodities had touched their lowest points in the first half of 1932, and the prospect of commodity prices rising again may well have been an important element in the advance of the security markets. The average levels of wholesale prices, but not all prices, nor the average in all countries, began to rise about July; but the rise was most marked in the United States and in some of the countries off gold. There were several important commercial countries, however — France, Germany, the Argentine, Dutch East Indies, Poland — where the decline in prices continued unchecked, and many others where the rise in July and August was very slight.

A fairly general revival in the prices of fixed interest-bearing securities was apparent in continental gold countries — Belgium, France, Switzerland — as early as June. There had, indeed, been a very substantial rise in French security prices in February, caused apparently by a flight of capital to France when the financial panic was at its worst in the United States. This movement, like the sustained rise of British securities at the end of the year, illustrates the difficulty of interpreting world events from the limited viewpoint of one market. In July, however, there was a widespread upward movement of fixed-interest security prices in many markets, notably in Germany, Canada, the United States and the United Kingdom.

The improved credit of the British Government enabled it to take advantage of the accumulation of credit and lower interest rates to carry through vast conversion operations. On June 30th, at which date the bank rate was lowered to 2 per cent, the first great operation was launched by which £2,087 million of 5 per cent War Loan was converted to a 3½ per cent basis. The operation closed at the end of September and was a great success, all but 8 per cent of the total loan being converted. The remainder was paid in cash without difficulty on December 1st. The British Government followed up this initial success with other smaller operations and, in October, the Australian Government, which had earlier converted its domestic debt and lowered interest rates, converted the first instalment (£12 million of New South Wales 5¾ per cent Stock) of its external debt to a basis of 4½ per cent. Commercial issues followed early in October and the reduction of long-term interest rates facilitated commercial conversions as well as new capital issues. Building societies and other financial institutions reduced their interest rates, and there was a general tendency to look for further reductions in long-term interest rates.

The movement thus initiated in London spread to other financial centres. In September, the French Government, despite a difficult budgetary situation, was able to convert all but 2½ per cent of 86 milliard francs of Rentes and Treasury bonds carrying interest at 5, 6 and 7 per cent, to a 4½ per cent basis. On October 1st, the rate of interest paid on deposits in all Italian credit institutions was reduced, and similar arrangements followed in Czechoslovakia and other countries. Germany had already reduced interest rates and New Zealand, early in 1933, successfully converted £115 million of domestic debt.

The general lowering of long-term interest rates, illustrated by these operations in widely separated countries, was one of the most important financial gains from the more confident atmosphere in the summer of 1932. Not only were budgetary burdens lessened, but the price of fixed-interest securities rose sharply and the rise spread also to high-grade commercial bonds.

After October, there was a considerable setback in the United States and Canada ; but in most European countries, and especially the United Kingdom and Germany, the upward movement continued into 1933. The rise in Germany was abruptly arrested in the middle of February, but the British market, strengthened by a renewed flight of capital from both France and the United States, continued firm.

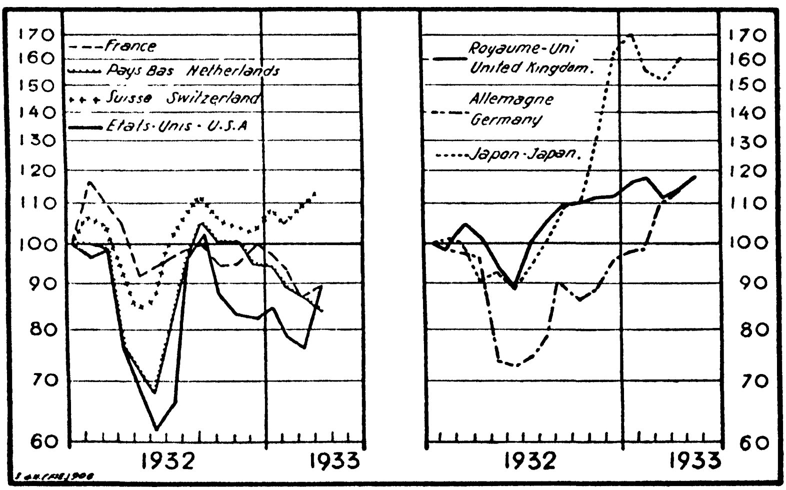
The index-numbers which measure economic, as distinct from financial, progress, particularly the statistics of industrial production, did not begin to rise till August. Their movement was the last in the sequence, but it continued in most countries into

November. Decline set in once more in the United States in November and, even allowing for seasonal fluctuation, most other countries showed declines in December. The increased production, which had been caused largely by progress in industries, such as the textile group, producing consumers' goods, did not long survive whatever stimulus had brought financial optimism in the autumn.

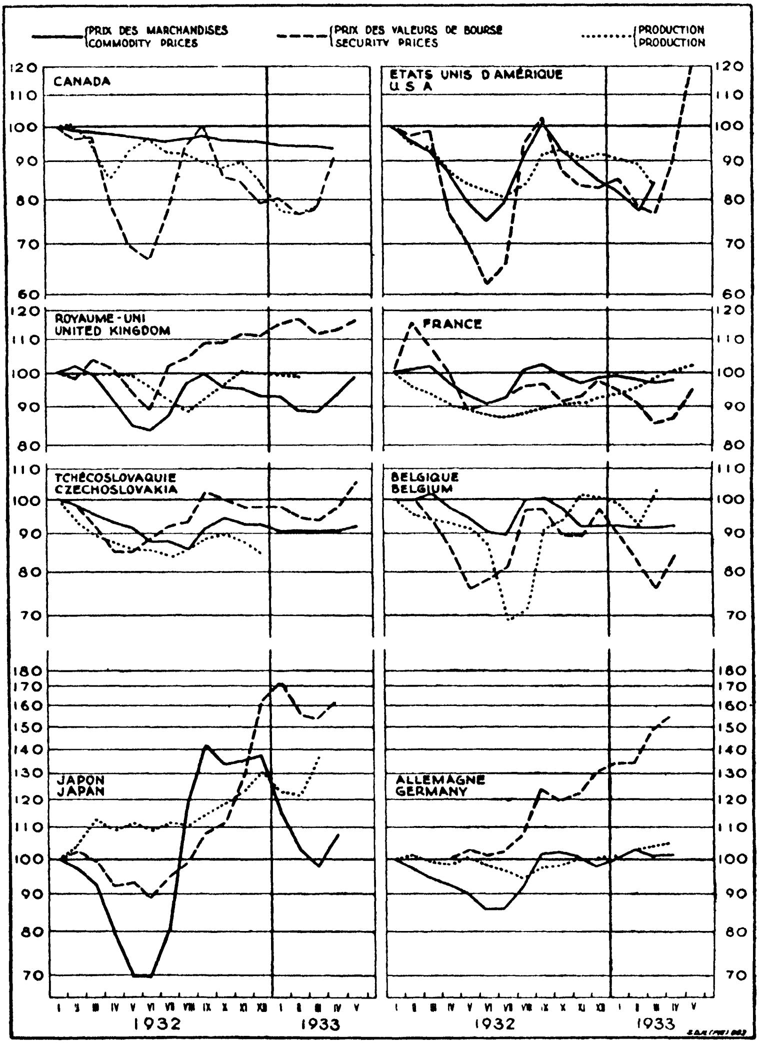
The accompanying diagrams bear witness, not only to the relatively slight degree of the autumn revival, but also to its uneven character in the different countries for which information is readily available. The successive peaks of security prices in different markets in recent months — London in December 1931, Paris in February, New York in October, Berlin and London in December 1932 and London in February 1933 — suggest very strongly that a large part of the fluctuation is due to capital movements. Only in the period July to October was there a general tendency to rising values in all the markets considered. The rise in commodity prices came a month earlier but was not so general. The improvement in production came a little later. It is evident that the factors which cau ed the revival found expression in June and July, and that their impetus varied greatly from country to country, but was largely spent by the end of the year.

The extent of the revival from the low point in July to the high point in October may be roughly measured by the following diagrams :

Industrial Security Prices in Main Financial Centres.
(Base : January 1932=100.)



Prices, Industrial Security Values and Production, January 1932 to June 1933. [1]
(Base : January 1932=100.)



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[1] The price indices are the national indices of sensitive prices except in the case of the United Kingdom, France and Canada, where the textile group of the general wholesale price indices has been given as being the most sensitive price group. In the case of Japan, the price curve represents the average of wholesale prices.

The industrial security value and production indices are those national indices given in the League of Nations *Monthly Bulletin of Statistics*.

The stage had been set for the autumn revival by a combination of monetary and financial factors which may be broadly summed up as a return to more normal conditions after the financial panic which raged from May 1931 and was especially severe after the United Kingdom abandoned the gold standard in September of that year. The intense deflationary pressure which was caused by the panic was gradually eased in the case of the countries abandoning gold by the stability of their internal price-levels, achieved partly by using the exchange rate as a buffer against falling prices, and in the case of the gold-standard countries by a gradual return of confidence following the successful resistance of most financial institutions to the strain of the liquidity crisis.

In the early summer of 1932, some progress had been made in many countries towards establishing a new equilibrium between costs of production and prices. In nearly all the countries which remained on the gold standard, there had been strong deflationary pressure expressed by economies in government expenditure, reductions of wages, and, in some cases, of interest, rents and fixed charges, and by forced capital reconstruction through bankruptcies. Such measures were undertaken also in many of the countries that had abandoned gold, notably in Australia. The very fact of depreciating the paper currencies, thus making possible some initial rise of wholesale prices without a corresponding increase in costs of production, was an important method of readjustment. When the worst of the financial panic was over and the relief gained from such readjustments became noticeable, there was a breathing space of a few months before the secondary results of the monetary breakdown became apparent. During those months, the financial and banking situation improved sufficiently to encourage the expectation of renewed economic activity and rising prices. In most of the important commercial countries, commercial bank deposits reached their lowest point and began to expand again between February and July 1932. It is true that this expansion does not tell the whole story, since the rate of turnover or, to use the technical expression, the velocity of circulation, continued to decrease. In itself, however, it was a favourable development and one which encouraged the hope of an improvement in confidence leading once again to a more rapid turnover.

This temporary strengthening of the banking situation was mainly due to the inherent powers of resistance shown by the commercial banks in the panic ; but, in the United States, it was assisted by the activities of the Finance Reconstruction Corporation in making short-term advances to banks and other commercial institutions which, though reputed solvent, were

exposed to sudden runs. The combined efforts of the Reconstruction Finance Corporation and the Federal Reserve Banks had by mid-1932 temporarily stayed the worst of the financial panic. The bulk of the assistance given to the commercial banks was used to repay their indebtedness and so to strengthen their liquid resources rather than to extend their operations ; but, as their position improved, the pressure on the security markets caused by forced sales tended to diminish. Assistance given to railways and similar enterprises had much the same effect.

At the same time, there had everywhere been continuous and effective re-organisations and adjustments of private business. The manifold forms taken by such re-organisation cannot be summarised briefly, but it is obvious that business men, individually and collectively, had not been idle in face of the depression. Economies great and small, the introduction of improved methods of production, reductions and re-arrangements of staff were extended and were paralleled by collective action to reduce costs.

Continuous efforts were made also to organise restrictions and control of production — *e.g.*, in the petrol industry in the United States, where the price of gasoline was stabilised early in 1931. Such developments, either by formal arrangement or by a natural shrinkage of production in the face of adverse prices, extended during 1932. A tabulation of the minimum points reached by the prices of important commodities shows that, in a number of commodities, the upward turn took place about the middle of 1932.

For a short time, it appeared as if the intervention of the Federal Reserve Banks and the Reconstruction Finance Corporation had arrested the spiral of deflation in the United States and might go on to stimulate an upward movement of prices and production ; but the open-market operations which had made this policy possible were stopped in August. The new economic policy launched by the German Government at the end of August combined remission of taxes with reductions in wages, but was put into operation cautiously. The British and French conversion operations were successful in achieving a reduction in governmental expenditure and also in making the first breach in the high rates of long-term interest, which were a burden both to national budgets and to industry.

All of these steps, however, important as they were, fell far short of the widely advocated policy of " controlled reflation ", and were indeed conducted simultaneously with deflationary policies in other directions. The exact extent to which they were responsible for the autumn revival must be a matter of

conjecture. There were other factors at work at the time, notably a speculative anticipation of economic recovery largely based upon the hopes of improved international co-operation as a result of the Lausanne Conference.

The Downward Drift.

The statistics of recovery examined in the preceding section are necessarily measures of national progress in the principal countries for which statistics are readily available. Inevitably these are the industrial countries of Western Europe and North America. The agricultural countries of the world, particularly those more remote from Europe, though equally bound up in the world economy, do not always share the economic changes that are apparent in the industrial countries. At best there is a long time-lag before such changes are fully registered.

The autumn revival in Europe and North America, it has been shown, was of a limited character, both in range and in time. It did not extend equally to all countries or to all industries and, by the end of the year, its impetus had been spent. The measure of economic readjustment that had been reached in the course of the depression had opened up the possibility of some recovery both in prices and production, the measures taken to arrest the liquidity crisis in the United States had eased the deflationary pressure in that important country and the improved prospects of international action that seemed apparent after Lausanne had contributed to a more confident tone in the speculative markets.

The agricultural countries appear to have anticipated the industrial countries in adjusting their domestic economic difficulties after the financial crisis. Almost all of them had abandoned the gold standard, thereby gaining relief in their domestic obligations while, at the same time, finding their external obligations lessened except when their domestic currencies fell below the level of sterling or other currencies in which their debts were due. Many of the agricultural countries also had supplemented these substantial reliefs by vigorous measures of domestic deflation. They were aided by the first rise in sterling prices after the abandonment of the gold standard, a rise which was substantial and lasted into the first quarter of 1932, long enough to cover most of the export season in the southern summer. It is not surprising, therefore, to discover widespread evidence of improved economic conditions in many raw-material-producing countries, particularly in those of the so-called "sterling group" in the first half of 1932. There is good reason to believe that

this improvement, in turn, was a substantial factor in the revival of the industrial countries later in the year. Increased purchasing power in the agricultural countries, particularly those which have not imposed extraordinary restrictions upon imports, is obviously favourable to an expansion of exports and therefore of production from the industrial countries.

At this point, however, in the middle of 1932, despite the more hopeful outlook in Europe and the United States, the secondary effects of the breakdown of international economic co-operation began to undermine the hopes of recovery.

Before the full effect of the autumn recovery could penetrate to the raw-material-producing countries, the first stimulating but evanescent consequences of currency depreciation had been succeeded by the depressing renewal of the decline in prices, which was aggravated by the uncertainties and restrictions of a broken international system. The autumn revival came too late and was too limited to prevent the renewed pressure on the weaker countries from once again breaking through the partial stabilisation that had almost been attained. Moreover, it was based, not on a genuine removal of the outstanding obstacles to recovery and a reconstruction of the broken international mechanism, but merely upon spurts of revival in isolated areas based in part upon dubious stimuli and upon the hope rather than the fact of reconstruction.

Exchange instability, trade restrictions, and the absence of capital imports, together with the recurrence of a falling price tendency in the second quarter of the year, limited the expansion of purchasing power that had been in progress in the agricultural countries. Many of the exchanges that had hitherto been stable or showed encouraging signs of regaining a measure of stability after the abandonment of gold parities began to drift downward again. There were signs of weakness in several South and Central American currencies early in the year. The Bolivian and Mexican exchanges fell in the early part of the year and were followed later by the Venezuelan, Peruvian and Chilian. On the other hand, the exchanges of Uruguay, Brazil — and, later, of Mexico and Venezuela — rose somewhat. Sterling and all currencies associated with it weakened steadily from April till December. The Greek drachma fell precipitately in April also and in June Ecuador was a new addition to the list of the countries with depreciated exchanges. In December, South Africa, after a long struggle, abandoned the gold standard and the next month the New Zealand pound dropped from 10 per cent below sterling to parity with the Australian currency at 20 per cent below. The Danish krone fell almost immediately to the same level and there was strong pressure on the Canadian dollar also.

Throughout 1932, the Japanese yen had been falling and in February 1933 it displayed renewed weakness.

Such widespread currency instability was paralleled by a stiffening of exchange controls in those countries which still maintained a nominal gold parity. Both phenomena provided evidence of severe strain upon the balances of international payments. Currency instability in turn aggravated the severity with which restrictions were imposed upon international trade and made impossible any hope of restoring the circulation of capital. The maintenance, except for a short time in the autumn, of huge stocks of primary commodities as international trade shrank, and the growing tendency towards the isolation of domestic markets, imposed renewed pressure upon the general level of prices, which began once again to decline steadily. Gold prices which had been rising from the middle of June began to fall again in the middle of September, lost all the autumn gains by early December and went on falling steadily in the early months of 1933. Sterling prices also fell from September onward, but not so sharply, part of the pressure being taken by a substantial fall in the exchange rate, which, however, throughout the whole period after the breakdown of the gold standard, had been the forerunner of further declines in the gold price-level.

Thus the economic situation was threatening in the early months of 1933 to develop into a still more serious phase of the financial depression. Despite the great and not wholly unsuccessful efforts made by a multitude of individuals and many Governments to bring order into the national economic situations, the breakdown of international commerce, finance, and currency was dragging all the nations down and imposing a strain on the weaker countries that threatened to become intolerable. At the turn of the year, production and prices were declining again almost everywhere. Unemployment showed little sign of decreasing. International trade had resumed its downward drift and fell more steeply still in January. Stocks of staple commodities remained very large. National incomes fell to even lower levels and the difficulties of public finance inevitably increased. Most ominous of all, there appeared in more than one country the weakening of exchanges and rising tendency of domestic prices premonitory of currency inflation. The detailed measurement of these various symptoms of deterioration will be set out in later chapters.

In the early months of 1933, therefore, the vicious circle was complete again. Competitive deterioration of the economic situation was well under way, as every country sought to protect itself at the expense of its neighbours. The tragedy of the

depression, repeated again in the autumn of 1932, has been that accommodation to international necessities has been too grudging and has come too late to avert further deterioration in the weaker countries, thus entailing a new and more difficult effort at restoring equilibrium at still lower levels.

The Beginnings of International Action.

It is not without significance that the psychological, and possibly the economic, beginnings of improvement coincided with the first constructive efforts at international action to remedy the depression and that the economic situation grew worse again as the hopes aroused by such efforts were deferred from month to month. In the closing paragraph of the *Survey* for 1931-32, written just after the conclusion of the Lausanne Conference, attention was drawn to the " note of cautious optimism sounded by the first reactions of the stock exchanges " to the hopes of political settlement and economic reconstruction raised by the agreement reached at Lausanne. It is a delicate and, indeed, an impossible task to ascertain the exact weight of political considerations in such a complex economic situation ; but there is almost universal agreement that the prospect of political settlement was a factor, equally with the hope of economic reconstruction, in the return of business confidence that marked the second half of 1932.

That it was not the only factor goes almost without saying. Whatever the original causes of the depression may have been, the economic wreckage that had piled up during its continuance called for very comprehensive technical adjustments, and a large measure of reconstruction. The mere fact that the average level of prices had fallen in less than three years by something like 40 per cent meant that virtually all contractual relationships were thrown out of equitable and effective adjustment. The delicate balance between wages, the cost of living, and wholesale prices, for example, was destroyed, so that wages, even when reduced, might still be too high when viewed as costs of production in relation to wholesale prices, but might, on the other hand, be low in relation to the cost of living. The real burden of debt charges had been enormously aggravated, fixed monetary incomes had increased in real value, but profits and variable incomes had generally shrunk. Within national economies, and internationally, the long-continued economic depression had disrupted the accepted scale of values and thrown all sorts of relationships into confusion.

There were some grounds for believing that, at the low point

of the depression reached in the summer of 1932, such technical economic adjustments as the equation of costs to prices had progressed considerably in certain countries and in certain industries. In so far as such adjustments had actually taken place, the way had been cleared for the normal economic stimuli to bring about a measure of recovery. Though subsequent developments, particularly in the United States, caused serious doubts as to the adequacy of liquidation at that time, it was widely believed in the late summer of 1932 that recovery was imminent and speculative anticipation of such a recovery was a major factor in the " boomlet " which raised security prices substantially in the autumn.

The analysis of the economic situation in the summer of 1932, which was made in a preceding section, however, suggests that, in addition to further domestic adjustments in many countries, important measures of reconstruction, adequate to restore the international economic co-operation that had broken down so badly, were essential before any recovery could be solid. No measures of economic adjustment within the power of individuals or commercial groups could restore lasting vitality to a world in which the international monetary system was destroyed, international trade had been pinched to a fraction of its former value and the whole international financial system was in disarray. To remedy such a fundamental breakdown, action by responsible Governments was clearly necessary.

Before such action could be taken, however, there were outstanding political conflicts, misunderstandings and mistrusts to be cleared up. The business world was beginning to realise that trade was not likely to expand until the restrictions upon it were removed, that the establishment of a stable monetary standard demanded close and continuous international co-operation, that the hope of prices rising, of credits being " unfrozen ", of "blocked" accounts being transferred, depended largely upon the Governments concerned coming to a series of satisfactory agreements upon these complex problems. But it did not require much political knowledge or imagination to realise that the prospects of securing such close technical collaboration upon vital economic problems depended largely upon a prior solution of certain outstanding issues of a more political character. In many of these political issues there were important economic elements. This was the case, for instance, with reparation payments and war debts. The economic aspect of disarmament was clearly important also, not only because of the magnitude of the expenditures involved, but also because the allied problem of security entered largely into the economic nationalism which was expressed in tariff warfare and unwillingness to risk undue

economic or financial dependence upon the goodwill of other peoples. But, apart altogether from the economic aspects of such important political issues, the prospects of intimate and long-continued international collaboration in the difficult and harassing tasks of economic reconstruction would, it was recognised, be greatly enhanced by a lessening of political tension and mistrust. The political settlement of 1924-25 had been a prelude to increased economic activity, and, in the summer of 1932, great expectations were fixed upon the Lausanne Conference in the hope that it might settle some of the outstanding political problems that were dividing Governments, and commence, or at least clear the way for, the tasks of reconstruction.

The economic results of the Lausanne Conference were important, therefore, in three respects. In the first place, the mere fact of agreement upon some of the most vexatious issues that had embittered post-war European politics led in itself to a lessening of the political tension that had seemed to inhibit international co-operation. The hope revived that a better understanding among the principal European Powers would lead to further progress in such matters as disarmament and the organisation of peace and security, which in turn would make international economic co-operation more feasible.

The second achievement at Lausanne lay in the tentative agreement on a final solution of the reparation problem and the hope that this agreement would facilitate impending discussions concerning war-debt payments. The economic and psychological effects of these inter-governmental financial obligations had loomed very large in the depression, and many authorities had come to regard them as among the most important contributing causes, if not the original cause, of the breakdown of international economic and financial co-operation. Although the suspension of such payments under the Hoover moratorium of June 1931 had removed the actual economic burden during the twelve months in which the moratorium was operative, the psychological effect of maintaining the obligations, and the prospect of payments being resumed while economic activity, and particularly international trade, was at such a low ebb, remained as difficult obstacles to recovery. The agreement announced at the opening of the Conference prolonging the moratorium, as far as reparation payments were concerned, brought a considerable measure of relief. The subsequent agreement provided for the elimination of future payments in return for the delivery by the German Government to the Bank for International Settlements of 5 per cent redeemable bonds to the amount of three milliard Reichsmarks gold. These bonds are to be held by the Bank and are not to be negotiated before July 9th, 1935. After that date, the

Bank will negotiate the bonds by means of public issues on the markets as and when possible, in such amounts as it thinks fit, provided that no issue shall be made at a rate below 90 per cent. Any bonds not negotiated by July 9th, 1947, will be cancelled. The proceeds of the issues are to be placed to a special account, the allocation of which among the creditor Governments will be decided by further agreement among them in due course.

This settlement was conditional upon ratification by the Powers concerned, and such ratification, it was evident, would depend partly upon the progress made in subsequent discussions concerning the war debts. The very existence of such a conditional agreement was, however, interpreted as a considerable step towards the final elimination of both these disturbing financial legacies of the war.

The third way in which the Lausanne Conference broke new ground was by the preliminary steps taken to organise international action directed towards economic reconstruction.

By Section IV of the Final Act of the Conference it was decided to set up a committee " with the duty of submitting to the Commission of Enquiry for European Union at its next session proposals as to measures required for the restoration of the countries of Central and Eastern Europe ". The following section of the Final Act invited the League of Nations to convoke a " Conference on Monetary and Economic Questions ".

The Committee which came to be known as the " Stresa Conference for the Economic Restoration of Central and Eastern Europe " was constituted by delegates from fifteen European Governments. [1] Its terms of reference, laid down at Lausanne, concerned two broad problems :

(a) Measures to overcome the present transfer difficulties of the Central and Eastern European countries and to make possible the progressive suppression, subject to the necessary safeguards, of the existing systems of exchange control ; and

(b) Measures to revive the activity of trade, both among those countries themselves and between them and other States, and to overcome the difficulties caused to the agricultural countries of Central and Eastern Europe by the low price of cereals, it being understood that the rights of third countries " remain reserved ".

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[1] Austria, Belgium, the United Kingdom, Bulgaria, Czechoslovakia, France, Germany, Greece, Hungary, Italy, Netherlands, Poland, Roumania, Switzerland and Yugoslavia. The representative of Latvia was admitted to the Conference as an observer.

Quite clearly, these terms of reference, while of paramount importance to the countries immediately concerned, touched at more than one point the interests of many countries outside Central and Eastern Europe. The regional problems of Central and Eastern Europe could be profitably considered only in the setting of a world economy. The Commission of Enquiry for European Union received the report of the Stresa deliberations at its meeting in September 1932 and appointed a sub-committee to elaborate further the proposal made for a Currency Normalisation Fund, but deferred any action concerning the recommendations pending the Monetary and Economic Conference.

Another conference of great international importance was held in the summer of 1932 at Ottawa. Representatives of the United Kingdom and the self-governing dominions of the British Commonwealth, and India, together with the Secretary of State for the Colonies, negotiated a series of agreements designed to increase inter-Imperial trade. In one respect the discussions at Ottawa bore vitally upon the problems involved in any international action aiming at economic reconstruction. It was publicly stated by the leader of the delegation from the United Kingdom that the aim of his Government was to begin at Ottawa, and within the family circle of the British Commonwealth, a movement towards freer trade which might be carried further along a wider international front in subsequent negotiations at the Monetary and Economic Conference. The extent to which the agreements reached at Ottawa did in fact make for freer trade is examined in a later chapter. From the point of view of their effect upon the public estimation, in non-British as well as British countries, of the possibilities of immediate international action aiming at economic reconstruction, the conflicting reports while negotiations were proceeding at Ottawa, unavoidable delay in publishing the detailed schedules of the new duties, and the controversy that arose concerning their probable economic effects, all contributed to more sober expectations and therefore to an abatement of the optimism which had been aroused by the success at Lausanne. The guarded nature of the report upon currency policy and its references to the need for international, as distinct from imperial, agreement pointed also to a postponement rather than an acceleration of decisive action.

In the last quarter of 1932, therefore, the hope of rapid action to follow up and implement the agreement at Lausanne, and to build upon it a substantial measure of international co-operation in economic reconstruction, had been considerably discounted. Slow progress, or renewed tension, in the concurrent political discussions concerning disarmament and the Sino-

Japanese dispute contributed also to an abatement of the optimism expressed earlier in the autumn.

As the year 1932 drew to a close, the controversy that developed concerning the payment of the war-debt instalments due on December 15th still further clouded the horizon. The initiative in raising this problem was taken by the United Kingdom, whose instalment was by far the largest. In a brief note delivered shortly after the result of the Presidential election had been declared, a request was made, pending negotiations concerning a reduction of the debts, for an extension of the Hoover moratorium, which had expired since the previous payment. In the negotiations which followed, and notably in the second British note of December 1st, the ratification of the Lausanne agreement concerning reparation payments was linked with the possibility of war debts being treated similarly. The other European countries from which instalments were due opened up negotiations with the United States Government also ; but the latter stood firm in its request for payment, In the event, the United Kingdom, Italy, Czechoslovakia, Finland, Greece, Latvia, Lithuania, Roumania and Yugoslavia paid their instalments ; while France, Poland, Belgium, Estonia and Hungary did not. The British payment amounting to $95,500,000 was made by earmarking gold to that value in the vaults of the Bank of England.

There were many other discouraging factors in the international situation, when the Preparatory Commission of Experts appointed to draw up the agenda of the Monetary and Economic Conference met in November 1932 and again in January 1933. Prices were falling again, optimism had been replaced by pessimism on the stock exchanges, unemployment was increasing and international economic equilibrium had been further disturbed by the fall in the exchange value of sterling which persisted through the late autumn and early winter.

The analysis of the economic problems confronting the world which the Preparatory Commission made for the Monetary and Economic Conference referred in its introduction to " certain auguries of improvement ". These, it is evident from the context, were the signs of revival " after Lausanne " and particularly the fact that " more favourable monetary conditions, technical economic readjustments and reviving confidence are being currently interpreted by those who assume the risks of investment as affording the possibility of a genuine change for the better in the economic situation ". This statement, written in mid-January, is, however, placed between two significant warnings. After summarising " the extremities to which the forces of disintegration have already carried the economic world " and stating that " further losses of ground cannot be

contemplated without the gravest forebodings ", the experts concluded their introduction by a very emphatic denunciation of the prevailing economic warfare, and an equally emphatic warning to the Governments that " this prevailing conflict of national economies must be resolved " if " a full and durable recovery is to be effected ". Before this warning could take effect, however, there were, within a month, a recrudescence of banking difficulties in the United States ; an aggravation of the Far-Eastern dispute, leading to sharp falls in both Chinese and Japanese bonds ; further depreciation of the currency in New Zealand and Denmark, and a marked decline in German bonds, in addition to such general developments as further declines in prices, production, employment and international trade.

The key to the economic situation, it was evident to the experts, was a restoration of international economic co-operation; but it is a difficult key to turn and becomes more difficult with delay. Moreover, a growing body of opinion in almost every country tends to become impatient and even intolerant of the seemingly futile efforts to find a solution by international action. Impressed by the clamant need for action in some direction, and by the evident possibility of immediate, if partial and often exaggerated, results from re-organisation within national or group boundaries, such opinion, which claims to be practical in contrast with the theories of international co-operation, tends to be reinforced by the vested interests which grow up behind currency or trade restrictions. The strong development of such autarchic doctrines was to be noted in many widely separated and diverse countries. The forms which this development took were as diverse as the countries where they appeared. Not the least significant from a long-run point of view was the increased pace of industrial development in hitherto backward industrial countries.

It is all the more significant, therefore, that the trend of expert opinion, as the depression deepened, became more and more definite and emphatic that a return to freer international economic co-operation was the true direction in which a solution might ultimately be found. The hardening of expert opinion along these lines may readily be traced, not only in the various reports and manifestos of committees of economists such as the League's Gold Delegation, and of such bodies as the International Chamber of Commerce and the International Chamber of Shipping, but also in the resolutions of the Board of the Bank for International Settlements and most clearly of all in the draft annotated agenda prepared for the Monetary and Economic Conference. The introduction to the draft agenda, indeed, declared specifically

that the alternative of national self-sufficiency "would shake the whole system of international finance to its foundations, standards of living would be lowered and the social system as we know it could hardly survive ".

The positive plan of action envisaged by the Preparatory Commission in its draft agenda consisted essentially of a modest, but difficult, programme aiming at the restoration of international economic co-operation in four main fields—monetary and credit policy, price stabilisation, the restoration of capital movements and the progressive removal of trade restrictions. The technical details of this programme are best treated in their proper context in later chapters. At this point, however, the fact should be emphasised that there was a growing realisation in 1932 and early 1933 that national, imperial and regional schemes for economic reconstruction must be fitted into wider international programmes.

One of the first and most significant statements on this point is that contained in the report on currency policy drawn up by the financial experts at the British Imperial Conference held at Ottawa in July and August. This report, while laying down broad principles to be followed by the monetary authorities of the British Empire, contained the clear statement that such principles were conditioned and limited by the possibility of securing international co-operation in their application.

The conference at Stresa, with its proposals for economic and financial action to relieve the situation of the Central and Eastern European countries, developed in much the same way into regional preparation for the Monetary and Economic Conference.

The programme for the Monetary and Economic Conference set forth by the Preparatory Commission of Experts was the culmination therefore of much planning on more restricted lines. It incorporated also the main results of prolonged investigation and discussion by international economic and financial institutions, and, in particular, followed closely upon the principles contained in the report of the Gold Delegation of the League of Nations which had subsequently been endorsed by the Board of the Bank for International Settlements. It was based, therefore, upon a wide and developing body of expert opinion.

It is obvious that a programme consisting essentially of the reparation of mechanisms for international co-operation that had broken down under unprecedented strain did not contain any very revolutionary proposals involving departures from established practice. Panaceas holding the promise of rapid amelioration of existing conditions were conspicuously absent. There was no plan for world inflation, for work-spreading or

work-creation, and little encouragement to the advocates of world-planning. Rather there was a minimum programme of reconstruction to get the mechanism working again, together with proposals for clearing away the debris of past failures, and for cutting loose the restrictions that have impeded the mechanism. Emergency measures were suggested as necessary in certain special cases and some permanent improvements were outlined; but the programme as a whole was one designed to get the former international system working again rather than to construct an ideal new system.

The Preparatory Commission drafted its suggested agenda in the middle of January 1933 ; but in the interval between that time and the opening of the Monetary and Economic Conference on June 12th, a succession of important political and economic events changed the setting of the Conference very considerably. The banking crisis in the United States was followed by the abandonment of the gold standard and the passing of legislation which gave unprecedented powers to the President to take action in the monetary and economic field. The Conference opened, therefore, with the dollar added to the list of fluctuating paper currencies. A brief summary of the progress made in the early sessions of the Conference is contained in the last chapter of this *Survey*, but a fuller analysis must be reserved for later volumes.

Chapter II.

THE CONFUSION OF PRICES.

The General Trend of Prices in 1932-33.

Some indication was given in the *Survey* for 1931-32 of the background of instability which lay behind the collapse of the general price-level from 1929 onwards. It is not intended here to repeat or amplify that discussion, or to enter into the controversy concerning the causes of the price decline. There is general agreement that the causes are many and complex. Important and far-reaching changes in the geographical and technical structure of industry and trade; equally important social developments such as a rising standard of living together with lessened flexibility of adjustment ; political difficulties arising from reparation and war-debt payments, and tariff wars ; monetary problems connected with the post-war currency stabilisations and the working of the new gold standard after it had been restored ; international capital movements, security speculation and exchange difficulties — all entered into the background of the price-fall. The exact degree to which these various factors entered into the combination of causes which precipitated the depression has been, and still is, a subject of lively controversy. In the pages which follow, however, no attempt will be made to discuss these causes. Attention will be directed rather to the various aspects of price-movements since the beginning of 1932.

The present section is devoted to an exposition of the general trend of prices in 1932 and the first quarter of 1933. The abandonment of the gold standard by the United States of America in April created an entirely different situation, which must be left for treatment in a later chapter. The discussion which follows treats of events to the end of March 1933.

Wholesale Price Indices of Certain Countries.

(Base : 1913 or 1914 = 100.)

Country	Peak in 1929	March 1933	Date of the lowest point	Percentage decline from peak to	
				The lowest point	March 1933
Belgium	869.0	504.0	III/33	42.0	42.0
Dutch East Indies	150.0	77.0	III/33	48.7	48.7
France	660.0	390.0	III/33	40.9	40.9
Italy	499.0	287.0	III/33	42.5	42.5
Netherlands	147.0	72.0	III/33	51.0	51.0
Poland [1]	99.0	57.9	XII/32	43.2	41.5
Switzerland	142.9	90.0	IV/33	37.0	37.0
United States of America	138.2	86.2	II/33	38.0	37.6
Austria	135.0	107.0	I/31	22.2	20.7
Czechoslovakia	964.0	647.0	III/33	32.9	32.9
Estonia	123.0	80.0	III/33	35.0	35.0
Germany	139.6	91.1	I/33	34.8	34.7
Hungary	136.0	82.0	XII/32	40.4	39.7
Latvia	127.3	83.8	XII/31	36.5	34.2
Argentine	129.8	113.0	III/33	12.9	12.9
Australia	170.8	122.5	II/33	28.5	28.3
Canada	153.3	100.6	II/33	35.2	34.4
Chile	198.8	343.4	X/31	28.4	(+72.7)
Denmark	159.0	123.0	IX/31	31.4	22.6
Egypt	125.0	70.0	III/33	44.0	44.0
Finland [2]	100.0	89.0	IX/31	21.0	11.0
Greece	1,854.0	2,017.0	VIII/31	23.6	(+ 8.8)
India	149.0	83.0	III/33	44.3	44.3
Japan	172.2	134.0	VI/32	35.8	22.2
Norway	167.0	121.0	IX/31	29.9	27.5
New Zealand	148.3	129.6	I/33	15.6	12.6
Peru	189.0	174.0	IV/32	13.8	7.9
South Africa	119.6	90.0	X/32	27.3	24.8
Spain	174.0	168.0	VI/30	4.6	3.4
United Kingdom [3]	140.3	97.6	III/33	30.4	30.4
Yugoslavia [2]	107.0	67.0	IX/32	42.2	37.4
China [2]	107.4	107.1	I/29	5.3	0.3

[1] Base : 1927 = 100.
[2] Base : 1926 = 100.
[3] Board of Trade Index.

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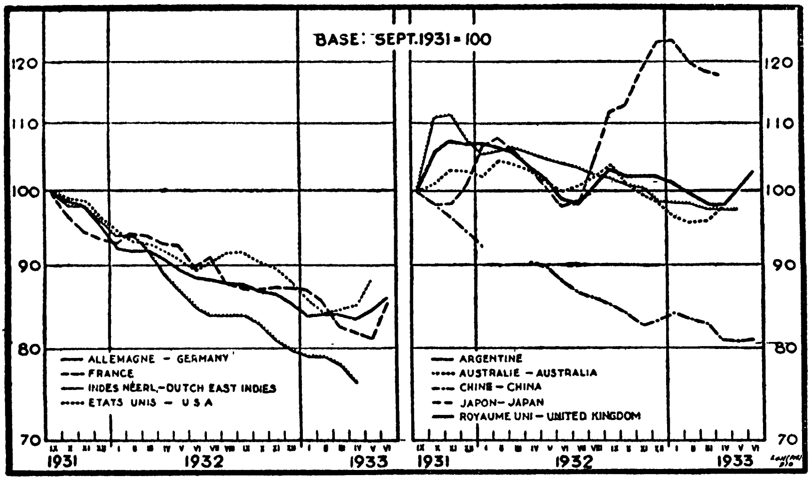
Price Movements in Certain Countries — September 1931 to June 1933.



The continuing downward drift of the price-level in nearly all countries is very clear. There were few, on or off the gold standard, where the index-number for March 1933 did not stand at the lowest level yet recorded in the depression. In the United Kingdom the recovery after June-July 1932, though subsequently diminished by a falling tendency from October onwards, had not been wholly lost by March. In Chile and Japan prices rose substantially because of currency inflation. There was, in March, a slight upward movement in several countries coincident with the security speculation and exchange disturbances which were caused by the depreciation of the United States dollar. The full effect of this latter movement, however, cannot be estimated as yet, since it is not possible at the moment to foresee the developments of American monetary policy.

Apart from the unsettlement in March 1933, therefore, there had been only one period in the last four years during which the downward trend of prices had definitely been arrested. That period was for three or four months before and after the Lausanne Conference in July 1932. The average level of wholesale prices rose between June and October by a little over 2 per cent in the United States of America, and by almost 9 per cent in the United Kingdom, but, in many countries, the decline continued steadily, and in none, except where there was definite inflation, was the improvement anything but hesitating and temporary.

Continued political, economic and monetary uncertainty, the multiplication of trade restrictions, and renewed exchange fluctuations were the main factors in causing a reversion to deflationary tendencies in the winter of 1932-33. At the time of writing, at the beginning of May 1933, with the opening of the Monetary and Economic Conference still six weeks ahead, and national monetary policies still uncertain in most of the important financial countries, it is impossible to guess at the importance or probable duration of such rises of prices as occurred during March and April.

While the downward trend of prices had been practically universal and continuous from the beginning of the depression late in 1929 until February 1933, there was considerable variation in the extent to which the average level of wholesale prices, as measured in national currencies, had declined in particular countries. It is clear that prices fell most in those countries which retained a free gold standard. In those which interposed a buffer between world prices and prices in their domestic markets by allowing their exchange to depreciate, the extent of the decline was much less. It is significant, however, that in all cases, except those where currency inflation was resorted to, prices continued to decline after the first adjustments had been made to the new paper standards. In all cases too, except inflationary countries, prices stood at lower levels in March 1933 than before the abandonment of the gold standard.

The significance of these facts warrants more extended investigation than can be made in this *Survey*. It appears evident that, even without a common international standard of value, and in face of greater restrictions on the circulation of capital and the interchange of commodities than had previously been known, the price-systems of the various countries remained closely linked. Even though the units of measurement were different and world markets were broken, the general drift of prices was the same practically everywhere. How far this similarity of movement is inherent in the price-system or how far it was caused by policies and economic forces which were approximately the same in the main gold and non-gold countries is a question that lies outside the scope of the present discussion. The important fact to record here is that a mere change from the gold standard to a managed paper standard was not in itself sufficient in the given circumstances to affect any decisive alteration in the movement of prices. After a period of confusion during which there was some rise of paper prices to compensate for the exchange depreciation after gold had been abandoned as the standard, the movement of average prices, in default of positive inflationary

action, followed in every case the same general course as in the countries still adhering to gold.

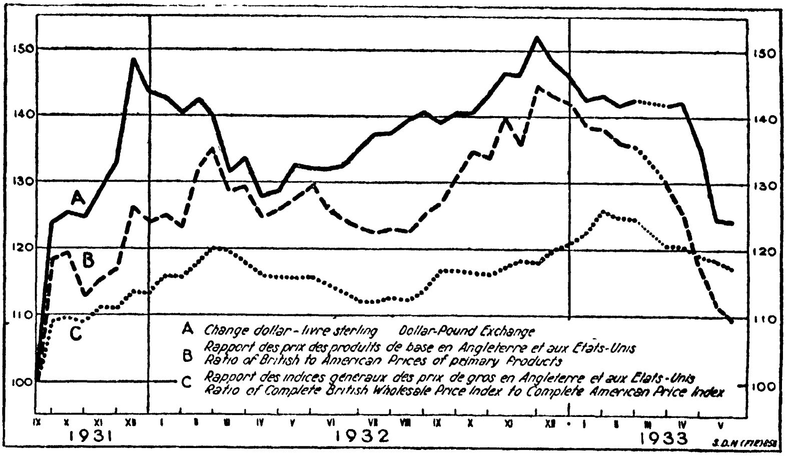
It should be added, moreover, that up till March 1933 the net effect of abandoning the gold standard had been to depress rather than raise gold prices. In a perfectly free economy, the lessened demand for gold might have been expected to lower its value and cause prices to rise. But, on the contrary, the demand for gold did not lessen. The increasing gold production of the world, supplemented by large amounts released from hoards in India and China, was readily absorbed at higher prices in terms of the managed currencies and in terms of commodities. The gold-standard countries, and many countries which had abandoned that standard, continued to buy gold as their resources permitted, and, in addition, a large demand for private hoarding sprang up in Europe and North America as currency instability became more widespread.

The depressing influence on commodity prices thus created was reinforced by a great variety of economic factors. As will be shown later, little progress was made in correcting many of the fundamental maladjustments of the price-structure. Production therefore continued to decline and prices to fall. In order to compete more effectively in world markets, the countries with managed currencies endeavoured to restrain any tendency for their domestic prices, and therefore their domestic costs, to rise, preferring to allow their exchange-rates to fall. Since many of these countries have very great influence in world markets, the lower levels of their export prices and the failure of their domestic prices to rise tended to depress world prices in general. Moreover, the countries remaining on gold attempted to meet the new competition from depreciated currencies by further deflation and also by increased trade restrictions, and in the latter they were joined by many of the countries off gold. The total effect of currency instability therefore was still further to depress the average level of world-prices.

The complex influences of short-term capital movements and psychological as well as economic factors rendered it difficult to reconcile the internal and external purchasing-power of many of the most important managed paper currencies during this period. Sterling, for example, depreciated in terms of gold currencies much more than sterling prices varied from gold prices. The fact that so many important currencies were fluctuating made any attempt to determine their true or "natural" ratios still more difficult. "Relativity" of standards became a problem of vital practical economic interest and importance, all the more because experience proved once again that currency

instability in itself (as distinct from conscious management) was a disturbing and depressing influence upon price-levels and economic organisation.

Ratio of British and American Prices and Dollar-Pound Exchange, 1931-1933.
(Base: September 18th, 1931 = 100.)



The situation in March 1933, therefore, was not reassuring as far as the general drift of prices was concerned, and was equally disturbing when the continued and even aggravated price disequilibria, international and industrial, were taken into consideration. The actual extent to which wholesale commodity prices fell from the peak levels oı 1929 varied considerably from country to country, but averaged about 40 per cent in terms of gold currencies. There were many individual commodities and large groups of products which fell more heavily. The raw materials and agricultural products which enter largely into international trade, for example, fell on the average about 50 per cent.

More significant in many ways than the extent of the decline has been its duration. The sharp fall of wholesale commodity prices in the crisis of 1920-1922 was greater in most countries than the more protracted fall in the present depression. Thus, in the United States in the years 1920-1922, prices fell for twenty-one months consecutively, the total fall being 45 per cent. In the years 1929-1933, on the other hand, prices fell 38 per cent; but the fall was spread over 44 months, to February 1933, with only one brief period of respite.

While the fall in 1920-1922 was greater than it had become by February 1933, the circumstances of the two crises were very different. The fall in 1920 came after a very rapid rise of 140 per cent in the preceding five years (including a rise of 25 per cent in the final inflationary year), whereas the fall in 1929 followed a period of years in which commodity prices had been relatively stable with, on the average, a slight falling tendency. The adjustments in 1920-1922 were less difficult because there was less general expectation of maintaining the war and immediate post-war price-levels. In the present depression, the price-fall threw into confusion a much greater, and what had been regarded as a much more stable, complex of economic contracts and arrangements. The prolonged duration of the price-fall and the greatly increased resistance to the liquidation which was its natural consequence were indicative of a far more serious economic crisis during the past four years. So many expositions of the consequences of falling prices in the present depression are available that it would be superfluous to add another here.

Mention should be made, however, of another important if obvious fact. This is the second great depression within ten years and to some extent its effects are cumulative upon those of the first. In so far as liquidation was ineffective or incomplete after 1920-1922, the economic organisation was more vulnerable in 1929. This was particularly important in respect of the great volume of indebtedness in the world, which was incompletely written down in the previous crisis and subsequently was largely increased. Perhaps the most dramatic illustration of the cumulative aspect of the present price-fall is by a comparison with pre-war price-levels. The very drastic fall in 1920-1922 brought average wholesale prices — for example, in the United States of America — back to about the level of 1917, which was still 40 per cent above that of 1913. The subsequent drift downward, followed by the sharp fall after 1929, brought price-levels in most countries well below the pre-war standards — at the beginning of 1933, the level was 13 per cent in the United States, and in France, Italy and some other countries 18 to 19 per cent, below that of 1913.

The Problem of International Equilibrium.

In the foregoing discussion, attention was paid solely to movements, in one country or another, of the average level of wholesale commodity prices as measured by well-known and accepted index-numbers. Such movements are the simplest, and, in many respects, the most important, price phenomena ; but they ignore, and to some extent conceal, the significance

of the complex and confusing individual and group movements from which the average is compiled by a somewhat artificial calculation. The index-numbers that measure movements in the average or general level of wholesale prices tend, indeed, to focus attention, not upon the factors which influence prices from the side of the commodities exchanged, but rather upon the monetary factors which affect the standard of value. The chief use of index-numbers of wholesale prices has been to afford a rough measure of changes in the purchasing-power of the currency used as a standard of value. It has often been assumed that movements of individual prices about the average are in the main self-corrective and, for the purposes of monetary theory, comparatively unimportant. It has always been clear that violent movements of the average level, precipitated usually by fluctuations of the monetary standard in which all prices are measured, inevitably throw the prices of individual commodities out of adjustment and thus create disequilibria which have a disturbing effect upon production and trade. Recent experience, however, has emphasised the fact that there is a reciprocal effect of such disequilibria upon the movements of the average level. It is probable that divergent movements of commodity prices within the general average caused primarily by non-monetary factors, such, for example, as a bountiful harvest or new mineral discoveries, cheapening important raw materials relatively to finished products, may provoke changes in production and consumption which are sufficient in themselves to impart an upward or downward movement of the average price-level. It is true that the corrective processes which are immediately set up within the price-structure are generally powerful enough to prevent such an impulse from developing very far. As long as the price-system is reasonably flexible, the ready adjustment of price relationships to changed conditions in the demand and supply of particular commodities keeps the average level of prices on an even keel. In the absence of such flexibility, these non-monetary factors may be quite capable of causing a prolonged and persistent movement of the average, independently of, and even in opposition to, changes in the supply of monetary means of payment.

Such a situation seems to have arisen in recent months, when the price disparities described in the next section, between the prices of producers' and consumers' goods, and between those of agricultural and manufactured commodities in particular, proved obstinately resistant. The paralysis of production and trade, and therefore of consumption, that was the result of such maladjustments and of the devices introduced to prevent their removal by the harsher processes of competition was in itself

sufficient to force a continued price decline, even in face of an abundance of monetary means of payment.

If consideration is given, not only to wholesale commodity prices, but to the many other elements of the price-system — retail commodity prices for example, and all the complex relations that exist between various kinds of commodity prices and wages, interest rates, business profits, investment values, debt-burdens and taxation — the possibility of such a deadlock arising becomes still more obvious. Retail prices are more sluggish than wholesale, wage rates lag behind the cost of living, long-term contracts inhibit rapid changes in interest rates, the burdens of debt and taxation cannot readily be reduced as prices fall. If the elasticity of other parts of the price-system proves inadequate to absorb the shock which the original impetus to lower prices — however caused — imparted to the average level, the whole system may be tumbled into a confusion which itself becomes a further depressing influence. Once the elasticity of adjustment is broken in this way, the falling price tendency, opening out new and wider disequilibria as it progresses, tends to become self-perpetuating until no choice is left between an abandonment of the hindrances erected to competition or the application of some unorthodox device to break through the vicious circle.

The events of recent months, moreover, demonstrated the importance of a further disturbing factor in the price situation. The national currency systems based upon the gold standard, in which price-movements were formerly measured, was replaced by a confusion of standards so that the measurement and interpretation of price-movements, by practical traders as well as by economic theorists, became more difficult. To the disequilibria within national price-systems there was added a series of international disequilibria between these systems. The breakdown of the international gold standard was a result rather than a cause of such disequilibria, but it tended, like the maladjustments of commodity prices, to intensify and prolong the evils by which it was caused.

The disorganising effect of such developments is only too obvious. As long as there existed an international standard of value by reference to which temporary disequilibria could readily be gauged, international capital movements and commodity trade, influenced by and reacting upon interest rates and price-levels, were effective instruments by which equilibrium could be restored. In recent months the accepted international standard was replaced by a great number of competing and fluctuating standards. It is doubtful whether such confusion ever before existed, even in the inflation period immediately

after the war. For a time after the United Kingdom abandoned the gold standard in September 1931, there was discussion of sterling as an alternative standard to gold. The later tendency for the so-called " sterling bloc " to disintegrate as one country after another lapsed into further depreciation, followed by the appearance of the " managed " dollar as a further alternative, opened up a vista of fluctuating and competing standards which threatened the loss of any certainty yet remaining in international economic relations. As currencies shifted in relation to one another, it was not only the exporters, competing in neutral markets, who were affected, but the whole community. Price-levels and the relations between different sorts of prices, interest and capital obligations generally, wages and all economic contracts were altered by changing the standard in which they were valued. Depreciation in the external value of a currency was an aid to exporters, only so long as it was not followed by similar depreciation of other currencies. The advantages gained temporarily by depreciation were at the expense of competitors and ceased when depreciation became generalised.

Exchange depreciation, moreover, brought export advantages only when it kept ahead both of its international competitors and also of rising costs at home. Therefore, to the natural lag of domestic prices there was added a strong inducement for the countries which had abandoned gold to pursue monetary policies calculated to restrain any tendency for their costs of production to be increased. The counterpart of monetary nationalism was domestic deflation.

Recent experience has amply demonstrated this fact. Those countries which, for various reasons, found it necessary to abandon the gold standard, for the most part left their exchange free to find its own level, but pursued policies of internal price deflation in the sense of holding down costs of production as far as possible. This was a powerful factor in checking any possibility of prices rising. Moreover, export competition from countries with depreciated currencies was met by increased trade restrictions which put still further pressure upon the prices of those commodities entering into international trade. The narrowing of world trade and the disorganisation of production caused thereby was a major factor in forcing prices in general down to lower levels in recent months.

When the United States of America, by imposing an embargo on the export of gold on April 19th, definitely allowed the external value of the dollar to depreciate, this action was accompanied by the announcement of a monetary programme designed to give power to the Executive to proceed at its discretion with various types of monetary inflation. The legislative

neasures embodying this programme have not been finally passed at the moment of writing and there is no certain indication of the extent to which action will be taken in pursuance of the authority granted to the President. A marked rise of commodity and security prices took place immediately, partly as a speculative anticipation of some form of monetary inflation. By the end of April, this rising tendency had spread to other countries and was still proceeding rapidly in the United States. The probable duration and influence of such a movement, however, remained incalculable if only because the consequences of any monetary programme that may be decided upon will be so largely dependent upon the extent to which it can be made international by agreements arrived at during the course of the Monetary and Economic Conference. Further consideration of the recent rise in prices must therefore be deferred.

It is evident, however, that a rising price-level is sought, not as an end in itself, but as a practical means of remedying the price disequilibria which at present block the way to recovery. The lesson taught by the experience of recent years, and of recent months in particular, is that, among those disequilibria, the disorganised relations between national price-systems as a whole take an important place. The following section sets out various anomalies in the relationship between the prices of different sorts of commodities, some of which have fallen more drastically than others. If an upward movement of prices is to take place, it is essential for sound recovery that these anomalies shall be removed as the average level rises, or, in other words, that the commodities which are at present unduly depressed shall rise faster than those whose prices have been relatively well sustained. The prices of agricultural raw materials imported into industrial countries, for example, should rise faster than the prices of manufactured commodities exported from those countries.

It is equally necessary that a workable equilibrium should be restored between the average price-levels in the various countries. Not only should the right prices rise, but they should rise in the right places. Fortunately, the two factors largely work together. A rising tendency of raw-material, and especially agricultural, prices in the great industrial countries would go far towards righting the balances of payments and improving the purchasing power of the agricultural and debtor countries. But the mere statement of such a fact is sufficient to show that monetary policies designed to produce such a rising price tendency are intertwined with and dependent upon all the other factors which enter into the balancing of international payments. The freeing of commodity trade, resumption of capital movements, debt settlements and restoration of an

international standard of value must be taken into consideration along with other measures of monetary policy designed, in raising prices, to remove price disequilibria.

THE DISRUPTION OF PRICE EQUILIBRIA.

It is a truism that, in a changing world, the prices of individual commodities and services are constantly shifting in relation to each other and to the average price-level. Prices are the indicators which register and, to some extent influence, changes, not only in trade, but in the whole organisation of economic life. Under the system of free enterprise, this flexibility of individual prices is the necessary condition of healthy growth and adaptation to changing circumstances. There is a constant flux of shifting relationships, not only between different sorts of prices recording transactions at different stages of the economic process, but also between individual commodities and groups of commodities, and between national price-systems as a whole. In periods of relative economic tranquillity, however, the changes, while incessant and rapid, are not great and are quickly neutralised or offset. National price-systems, especially when they are connected with an international monetary system, are kept in equilibrium by the smooth working of the foreign exchanges ; movements of individual commodity prices cause compensatory adjustments in production and demand, not only for the particular commodity, but for all its related by-products, substitutes, and complementary commodities ; while divergences between wholesale and retail prices bring similar competitive forces into play. The range of fluctuation therefore is narrow and movements of the average price-levels are comparatively slow and smooth.

Violent fluctuations of individual prices, reflected in sharp movements of the average levels, however they may be caused, are indicative of abnormal and unhealthy economic conditions. Beyond a certain limit, such fluctuations are apt to defeat the corrective forces that are adequate to check and reverse them in more normal times. When, for any reason, the price of a commodity like wheat takes such a headlong plunge as occurred in the first year of the depression, it is not possible for increased demand, decreased production, and adjustment of other commodity prices quickly to restore the broken equilibrium. Since a whole range of important commodities was affected in the same way at the same time, it was inevitable that business activity in general should be affected by such a disruption of equilibria. As the depression deepened, the disequilibria became more serious and extended their range. The relations between

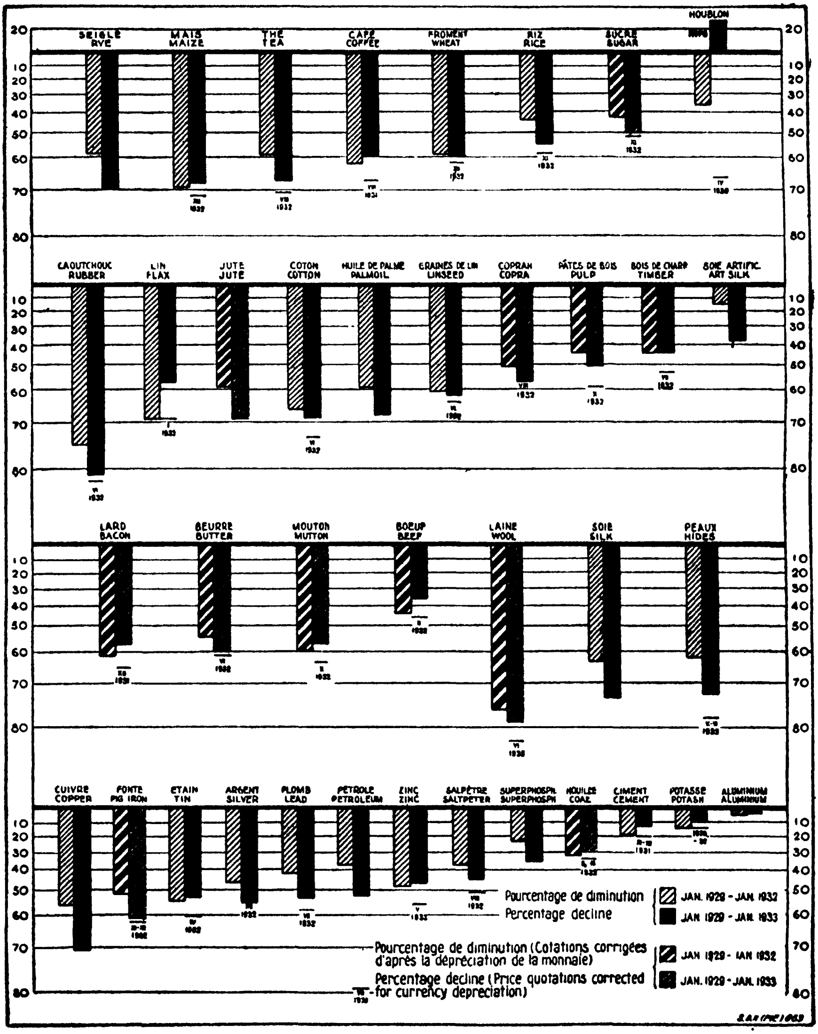
national price-systems became strained and the international monetary system broke down. As the confusion of prices increased, trade and industry became increasingly difficult, until it became generally recognised that the central point of the whole deadlock lay in the disjointed relations of various sorts of prices.

The *Survey* for 1931-32 described some of the most important price disequilibria created by the depression. It was there shown that the prices of individual commodities had fallen very unevenly, that growing disparities had developed between wholesale and retail prices in almost every country, and that there were important discrepancies also between the movements of significant groups of commodities. In the pages which follow, it will be shown that, up to the end of March 1933, these various disequilibria, so far from being remedied, had been aggravated. They had indeed become self-perpetuating in the sense that they blocked the recovery of economic activity and thereby tended to force prices lower. The following discussion follows much the same arrangement as that in the preceding *Survey*, and the statistical illustrations there given are brought up to date as far as possible.

The Course of Individual Commodity Prices.

The series of diagrams on which are plotted the prices of several important foodstuffs and raw materials show that, for the great majority of these commodities, the price-fall at least slackened in the latter half of 1932. At the beginning of 1933, it is true, most prices stood at lower levels than they had reached a year earlier, but, in the great majority of cases, there had been some measure of recovery from the lowest points reached at various times during the year 1932. Such recovery as had occurred in the second half of 1932, however, was greatly diminished by the falling tendency of prices in the last quarter of that year and the first months of 1933, so that, by March, the net gain in most cases was not great. The average level of prices, indeed, was drifting lower.

Percentage Change in Gold Prices
of Certain Foodstuffs and Raw Materials on World Markets,
January 1929 to January 1933.



The lowest prices up to March 1933 were reached for the various commodities in the order recorded below :

1930 :	April :	Hops.
1931 :	July :	Petrol.
	October :	Coffee.
	December :	Bacon.
1932 :	January :	Flax.
	February :	Beef.
	April :	Tin.
	May :	Zinc.
	June :	Rubber, cotton, linseed, butter, wool, hides.
	July :	Timber, lead.
	August :	Tea, copra.
	October :	Wood pulp, mutton.
	November :	Rice, sugar, coal.
	December :	Maize, wheat, pig-iron, silver, cement.
1933 :	March :	Rye, jute, palm oil, artificial silk, silk, superphosphates.

It is evident from this tabulation that there was no uniformity in the movement of prices as far as these products were concerned. At the end of March, not only were several commodities at the lowest levels of the depression, but many others which had risen slightly in previous months from their lowest points were either falling again or were showing little movement. When all were combined in a weighted average, the movement was still downward.

In the first quarter of 1933, therefore, there was little real stabilisation or promise of the price-fall being reversed. The prices of most textiles were 60 to 80 per cent below the levels at the beginning of 1929 ; cereals and other foodstuffs were 50 to 70 per cent lower; animal foodstuffs, 40 to 60 per cent lower; most of the non-ferrous metals, including silver, were 50 to 55 per cent lower, though copper was down by more than 70 per cent; coal had fallen only about 35 per cent, and cement, potash and aluminium even less.

Wholesale and Retail Prices.

It is possible to group and contrast wholesale commodity price-movements in a variety of ways. It can be shown, for example, that raw materials fell more than manufactured goods, and goods used for immediate human consumption more than those used for capital equipment. Part of the explanation for the latter phenomenon can be demonstrated by showing how cartellised (monopolised) prices fell less than those of free goods. The

greater fall of raw materials and consumption goods clearly caused a price-fall of greater significance in those countries whose main products are agricultural, so that the terms of trade run against such countries as their exports fall more heavily than their imports. There were, it is obvious, many factors at work in causing such discordant price movements ; but the greatest and most important was to be found in the weak bargaining position of the agricultural producers. The major disequilibrium of prices throughout the depression was caused by this weakness and there was little sign up till March 1933 that it was being removed.

In passing, it may be pointed out that the heavier fall of wholesale than of retail prices was partly due also to this phenomenon. Index-numbers designed to measure retail prices or the cost of living include a wide range of manufactured articles and even services. Rent, lighting, transport and a whole wide range of miscellaneous personal expenditure, as well as finished articles of food and clothing, are included in such calculations. There are many fixed or semi-fixed prices, such as rent charges fixed by contract for a term of years, or conventional standardised prices — for example, tramway and railway fares — in retail-price indexes, whereas index-numbers of wholesale prices include mainly competitive commodity prices.

It is not surprising therefore to find that the cost-of-living or retail-price indices fell much less than the indices of wholesale prices, especially when it is remembered that retail trade is more localised and less competitive than the great speculative world-markets in which wholesale prices are mainly determined.

Percentage Decline in Wholesale and Retail Prices in Certain Countries from the Average Levels ruling in 1929 until March 1933.

Country	Wholesale prices	Retail prices
Belgium	40.8	16.8
Canada	32.6	21.3
Denmark	18.0	9.2
France	37.8	5.9
Germany	33.6	24.2
India	41.1	32.2
Italy	37.0	17.3
Japan	19.3	20.5
Netherlands	49.3	17.9
Sweden	25.0	10.0
Switzerland	36.3	18.0
United Kingdom	28.5	16.5
United States of America	36.8	28.2

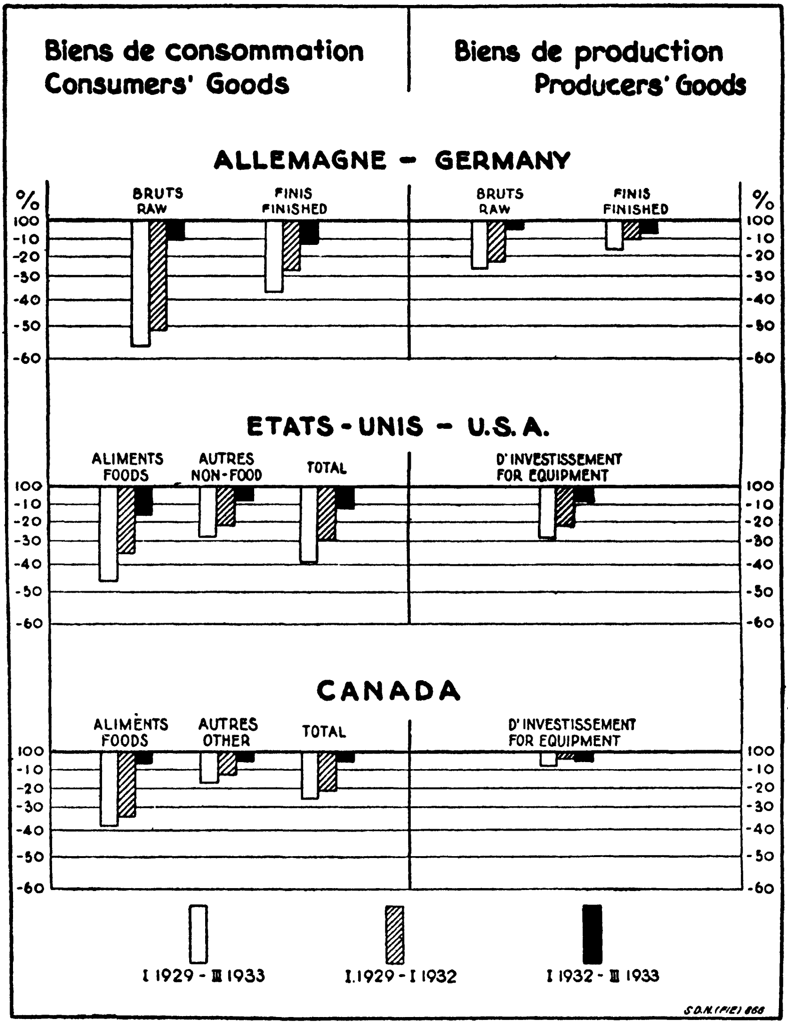
Such divergences of movement, however, did not represent a widening of the differences between the prices of commodities at different stages of manufacture so much as variant movements of the prices of different commodities and services. If wholesale and retail prices of the same commodities are compared, the differences are much less important. Thus, from the beginning of 1929 to March 1933, the wholesale and retail prices of foodstuffs fell in the percentages shown below :

Country	Wholesale	Retail
British India	38	33
Canada	45	38
France	30	6
Peru	17	12
Switzerland	33	26
United Kingdom	32	28
United States of America	45	39

The Collapse of Agricultural Prices.

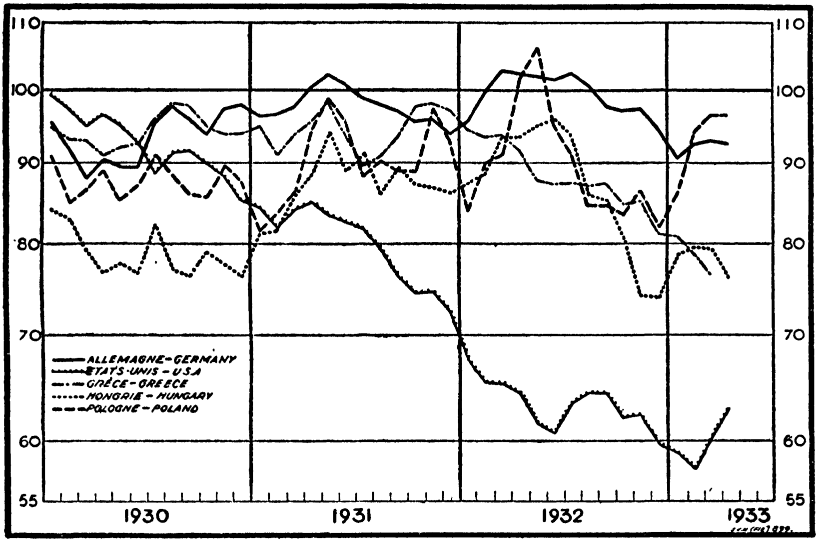
It will be shown in the next chapter that agricultural production, the world over, has been sustained in a remarkable degree. The reasons for this are obvious enough and have often been set forth. The cruel paradox by which the world has witnessed the piling up of large stocks of foodstuffs and raw materials, while agricultural prices fell to ruinous levels and widespread unemployment checked demand, was largely a price phenomenon, or, in other words, a problem of disordered exchange. The marked discrepancy between agricultural prices and those of manufactured goods, evident even before the depression set in at the close of 1929, continued and was even aggravated in 1932-33. In March 1933, the disparity was wider than ever and in its train there followed a shrinkage of purchasing power which crippled manufacturing production, a tightening of the international financial position of the agricultural debtor countries, continued difficulty in reconciling the prices of consumers' and producers' goods and almost insuperable obstacles to the re-starting of industrial, trade and investment activity.

Price Indices of Producers' and Consumers' Goods.



In face of the sharp decline of agricultural prices on world markets, there was a growing tendency to protection in those countries where the agricultural industries depend primarily upon the domestic market. This protection, expressed not only by higher tariffs, but also by the imposition of the various forms

Price Indices of Agricultural and Industrial Goods: Agricultural Goods as a Percentage of Industrial Goods[1].
(Base: 1929 = 100.)



of quantitative import restriction described in a later chapter, cut off the markets of the world one from another. The following table will show the marked difference between the course of agricultural prices in the exporting countries and in those where agriculture is largely a domestic industry.

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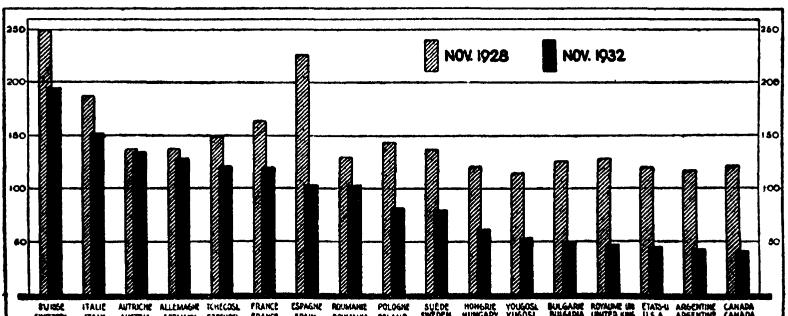
[1] Germany: Indices of "Agricultural Products" and "Industrial Products".
United States: Indices of "Farm Products" and "Non-Agricultural Commodities".
Greece: Indices of "Agricultural Products and Industrial and Chemical Products".
Hungary: Indices of "Agricultural and Breeding" and of "Other Industries".
Poland: Indices of "Agricultural Products" and "Industrial Products".

Percentage Decline in Agricultural Prices of Certain Countries : January 1929 to March 1933.

Country	Decline in national currency	Decline in gold prices
Argentine	51.4	70.5
Australia	35.9	65.5
Austria [1]	15.3	27.1
Canada	53.2	61.0
Dutch East Indies [1]	40.7	40.7
France	30.4	30.4
Germany	37.4	37.4
Greece	7.4	59.4
Hungary	45.4	45.4
India [1]	38.3	56.4
Italy	46.0	47.2
New Zealand [1]	11.5	50.1
Switzerland [1]	33.1	33.1
United Kingdom [1]	32.1	52.1
United States of America	59.6	59.6

The decline of prices in the exporting countries, measured in gold, was from 60 to 70 per cent. In those countries which normally import at least part of their agricultural requirements, special measures were taken to maintain domestic prices at a relatively high level. As one illustration of the extent to which the world market was broken into several non-competing markets there may be shown the following diagram of wheat prices, originally prepared for the Preparatory Commission of Experts which drew up the draft annotated agenda for the Monetary and Economic Conference.

Wheat Prices (in Terms of Gold) in Certain Importing and Exporting Countries, in November 1928 and November 1932.
(U.S.A. cents per bushel.)



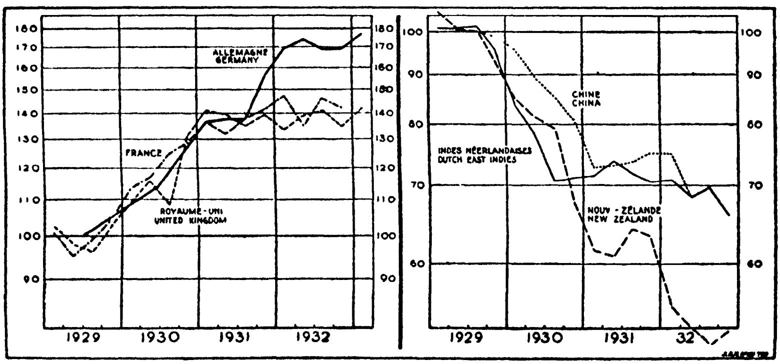
[1] Foodstuffs only.

Wheat is not the only example that might be given. Thus from the end of 1929 to the end of 1932, the world-market (Rotterdam) price of rye fell by 59 per cent ; but in Germany the fall was only 10 per cent, in Czechoslovakia 16 per cent and in Sweden 33 per cent. In Denmark, the price of butter fell by 64 per cent ; but in France the fall was 27 per cent, in Germany 36 per cent, and in Italy 40 per cent. Cuban sugar, free of duty, fell in New York by 58 per cent and other qualities fell on the world market in similar proportion ; but in Germany sugar prices rose 20 per cent, in Poland they fell 12 per cent, and in New York, duty paid, they fell 25 per cent.

The fall in agricultural prices, moreover, was not accompanied by a comparable reduction in the costs of agricultural production. Many of these costs are fixed by contract over a long term of years. In a time of depression, interest upon mortgage indebtedness, railway freights, overdraft charges for current expenses do not fall quickly. Labour costs fall more slowly than prices, and the prices paid for materials are maintained at higher levels than those which the farmer must accept for his produce. It has already been shown that, on the average, agricultural prices in the exporting countries fell by 60 to 70 per cent. But, in the United States, non-agricultural products fell by only 32 per cent in the same period, and a selected list of commodities purchased by farmers declined even less.

Export Prices as Percentage of Import Prices: Quarterly Movement (Germany 1929 and 1930 : Annual Movement).

(Base: 1929 average = 100. Logarithmic scale.)



Note. — The left-hand curves (*i.e.*, those for Germany, France and the United Kingdom) show the prices of *manufactured goods exported* as percentage of those of *raw materials imported.*

It is obvious also that, with such a drastic fall of agricultural prices, the terms of trade ran heavily against the agricultural

debtor countries. Industrial communities found their import prices fall more than their export prices, while agricultural countries suffered the reverse movement. The situation thus created may be summarised briefly in the following table :

Import and Export Prices and Terms of Trade of Certain Countries, 1929-1932.

(Base: 1927 = 100.)

Country	Import prices				Export prices				Terms of trade (export price as percentage of import price)			
	1929	1930	1931	1932	1929	1930	1931	1932	1929	1930	1931	1932
France	94	80	65	55	96	92	77	65	102	116	118	118
Germany	101	88	68	50	97	93	82	71	97	106	120	141
Italy	90	78	61	48	85	71	58	49	94	91	95	103
Switzerland	97	87	75	64	102	96	86	76	106	110	115	119
United Kingdom	99	87	70	65	97	93	83	76	99	107	119	119
U. S. A.	92	75	57	42	101	91	72	62	110	122	126	146
Argentine	84	84	84	.	105	94	71	.	125	111	84	.
Australia [1]	90	90	82	.	97	77	57	.	108	86	70	.
Canada [2]	95	84	71	.	95	77	64	.	100	92	90	.
Denmark	101	86	76	81	110	92	70	61	109	106	92	76
Dutch East Indies	97	91	72	59	77	52	36	28	79	57	51	47
Finland	97	79	67	81	97	91	74	73	101	115	110	91
India [2]	94	77	65	.	91	72	60	.	97	94	93	.
Latvia	91	80	69	72	88	76	57	46	96	94	82	64
New Zealand	98	97	95	93	106	84	65	59	109	87	68	63

The other side of this story, of course, was the marked shrinkage of imports into the agricultural countries, which is demonstrated in a later chapter.

It is of some interest to note that the agricultural protection that was so greatly increased in the industrial countries contributed directly to worsening this situation. The purchasing power of the agricultural exporting countries was in any case much reduced ; but the prices at which the industrial countries could export to them were maintained at high levels because the cost of living did not fall as quickly as it might have done with freer trade. This is clearly shown in the following table:

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[1] Years ending June 30th.
[2] Years beginning April 1st.

Percentage Decline in Retail Prices of Foodstuffs 1929-1932 (Annual Averages).

Countries exporting foodstuffs	Per cent	Countries importing foodstuffs	Per cent
Dutch East Indies . . .	52	Italy	22
Bulgaria	39	Switzerland	19
Canada	37	Sweden	17
U.S.A.	35	France	14

OBSTACLES TO INDUSTRIAL RECOVERY.

In the preceding discussion, stress has been laid rather upon the disruption of international equilibrium occasioned by the disproportionate fall of agricultural prices. The importance of this aspect of the question is very great, both in itself and as leading to the measures of tariff protection, currency depreciation, and other forms of interference with international commerce that so greatly complicated and aggravated the depression.

The international disequilibrium thus caused was, however, not the only untoward consequence of the uneven price-fall. There developed a series of discrepancies between the prices of important commodity groups, which blocked the restoration of industrial production. In the groupings which follow, it will be clear that there is some measure of similarity, produced largely by the fact that the discrepancy between agricultural and industrial prices, though not the only influence at work, was the most important. Thus it was the low and uncontrolled prices of agricultural commodities that largely accounted for the discrepancy between the prices of raw materials and those of finished products, and between the prices of consumers' goods and those of investment goods. In the same way, agricultural commodities weigh heavily among the non-cartellised as opposed to the cartellised commodities. Since the prices of agricultural products continued to fall on the average in 1932 at least as fast as those of manufactured products, it is not surprising to find that the " scissors " movements in the price-structure, so far from closing, tended to widen in the last year.

In the *Survey* for 1931-32, a table was given showing the percentage fall in the wholesale prices of raw materials and manufactured goods in four countries for which indices were available. For comparison this table is now brought up to date.

Percentage Fall in Wholesale Prices of Raw Materials and Manufactured Goods.

Country	January 1929-January 1932		January 1929-January 1933	
	Raw materials	Manu-factures	Raw materials	Manu-factures
Canada	38	22	46	27
Germany	31	21	35	29
Italy	44	30	49	33
United States . . .	41	25	49	31

It will be clear from this table that, only in Germany, where there was, during the first half of 1932, a marked deflation of prices affecting particularly cartellised goods, was there any closing of the gap. The principal reasons for the widening of this gap were obviously those which further depressed agricultural prices during 1932. The stoppage of capital imports and the necessity of repayment, throwing an extremely heavy strain on the agricultural debtor countries, the very disorganised state of world markets, the piling up of surpluses as import restrictions narrowed the area of international trade, and the many hindrances to a reduction of manufacturing costs and prices placed the producers of raw materials in an unenviable position. It should be stressed that the defences erected by the importing countries against the competition of low-priced agricultural products, by concentrating the surplus exports still more heavily in the remaining markets, contributed to aggravating the price-fall and therefore the disequilibrium between raw materials and finished products.

The variant movements of cartellised and non-cartellised prices may be used to illustrate one factor which partially explains the more resistant prices of manufactured goods. It was much easier to fix prices and control production for a fairly limited range of manufactured articles than it proved to exercise control over the scattered production of agricultural commodities. It can be shown that mineral raw materials, as a group, fell in price less than those of vegetable or animal origin. This was largely due to the greater ease with which mineral supplies could be controlled ; and, in many cases, the control of production was reinforced by producers' agreements which were sometimes international in scope and capable of controlling prices in world markets. Monopoly of varying degrees of completeness and permanence is found in many forms over a great part of the

industrial system, but is much less evident in agriculture. Its effects are difficult to measure, but the German indices of cartellised and non-cartellised prices throw some light on the extent to which it is responsible for the present price discrepancies.

Cartellised and Non-cartellised Prices in Germany, 1929-1933.
(Base: 1926 = 100.)

January	Cartellised	Non-cartellised
1929	104.6	101.9
1930	105.0	90.4
1931	95.2	66.2
1932	84.3	51.2
1933	83.5	45.7

In Germany, it should be remembered, strong pressure was brought to bear upon the cartels by the Government. The Fourth Emergency Decree of December 1931, for example, stipulated that the prices of cartellised products should immediately be reduced to a level at least 10 per cent below that prevailing in June 1931. In these circumstances, the magnitude of the discrepancy between the price-movements so far recorded is significant of the important influence exerted by monopolistic controls.

Finally, attention may be drawn again to the important discrepancy which continued to widen between the price-movements of consumer's goods on the one hand and those of investment or producers' goods on the other. The significance of this problem was pointed out in the preceding *Survey*. The relatively high prices of the commodities required for industrial construction and equipment in comparison with those paid by the final consumers constitutes an important impediment to recovery. During 1932, the discrepancy was widened rather than narrowed.

Comparable indices are not available for many countries, but they all point in the same direction. In the United States of America, the index-numbers prepared by the National Bureau of Economic Research show that the price of capital goods fell by 27 per cent up to the end of 1932, while consumers' goods fell 37 per cent. In other countries, the situation was worse. In Germany, producers' goods had fallen only by 16 per cent, while consumers' goods fell 35 per cent. In Canada, producers' equipment fell only 7 per cent and consumers' goods 26 per cent.

The relatively high price of investment goods as compared with the prices of finished products available for immediate consumption goes far to explain the failure of low-interest rates

and abundance of monetary resources to stimulate a revival of investment. Capital was available, but there was little opportunity of using it profitably. The materials used in the heavy industries — coal, iron and steel and building materials, for example — increasingly passed under the control of large concerns which followed policies of price stabilisation in good times and bad. Changes in demand were met by altering output rather than prices. But, in recent years, the fall in other commodity prices was so great that the gap which widened between the relatively stable prices of these producers' goods and the abnormally depressed prices of consumers' goods became an important hindrance to any prospect of recovery.

The Price Situation in March 1933.

The facts set out in the preceding pages may perhaps best be summarised by comparing the fall in prices with a landslide which carried with it buildings, fields, walls and living objects. As the landslide continued, the more vulnerable of the buildings collapsed and, in collapsing, started a fresh downward movement. The difficulty of arresting the landslide and of shoring up or re-building the economic structure was at least greatly complicated by the confusion caused by the distorted relationships into which various sorts of prices fell.

The disequilibria which were created were of many kinds, industrial and international. Concerning the latter, little more need be added to the statement contained above of the dangers inherent in fluctuating and competing standards of value. The Gold Delegation stressed the importance of international economic co-operation in many diverse spheres of activity as a necessary condition of the re-creation and operation of an effective international monetary mechanism. [1] The events of recent months have shown the disturbing effects of currency instability to be so great that the converse proposition might now be defended, that it is essential to " re-create an effective international monetary mechanism " in order to secure a greater degree of willingness to co-operate in many other spheres of activity.

The necessity for remedying industrial price disequilibria and, in particular, for reducing the discrepancies set forth in the previous section, is also sufficiently obvious to be generally recognised, but it may be worth while to draw attention to the manner in which such disequilibria have actually blocked recovery and tended to become self-perpetuating.

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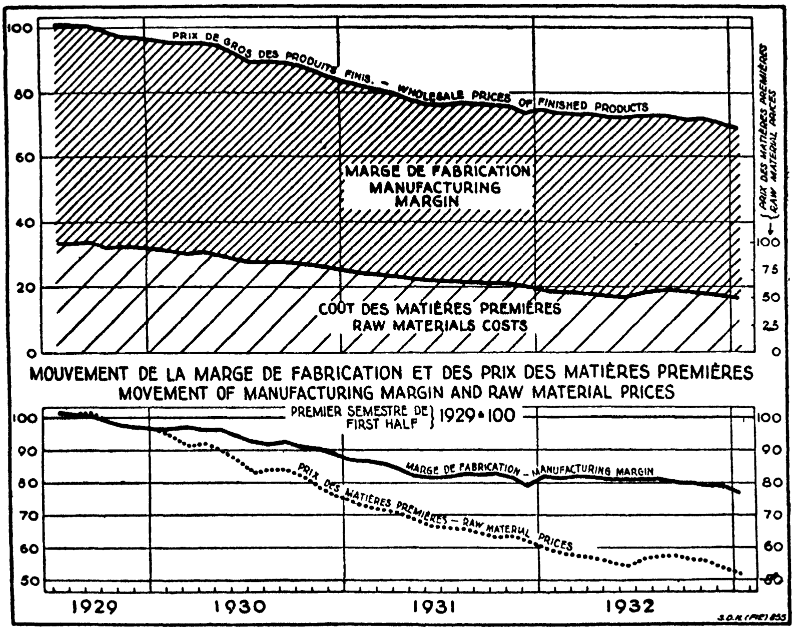
[1] See report of the Gold Delegation, paragraphs 39 and 40.

The key to the problem lies in the existence of overhead costs, which are difficult to reduce as the prices of most commodities fall. It is possible to demonstrate the fact that, even after full allowance was made for the lower prices of raw materials, the manufacturing profit-margin in 1932 was still reduced by comparison with 1929, because overhead costs were spread over a smaller production. There was definitely a vicious circle, in which lowered demand consequent upon falling prices of raw materials and upon wage reductions, diminished output, smaller gross profits and still lower raw-material prices and wage-payments followed in unbroken succession.

The diagram which follows, reproduced from the chapter on prices in "World Production and Prices, 1925-1932",[1] compares the fall in the prices of finished products with that of raw-material prices. On the assumption that in the first half of 1929 the cost of raw materials represented on the average a third of the final cost of the finished product, the price-curve for raw materials

Raw-Material Costs, Finished Product Prices and the Manufacturing Margin in the United States of America.
(First half 1929 = 100.)



[1] Formerly the "Review of World Production". This chapter was circulated, as an advance print, to the Monetary and Economic Conference.

is plotted on a scale which is reduced to one-third. The gap between these two curves, plotted separately below, represents the gross profit margin of manufacturing, and this margin will be seen to have diminished.

Obviously this rather crude picture ought to be elaborated by a study of the movements of other costs of production — such, for example, as wage-payments. It is probable, indeed, that such studies occupy much of the attention of business organisers in many countries at the present time. There has been a substantial decline in other costs than those of raw materials. The cost of labour, for example, fell in the United States of America by about 25 per cent from 1929 to the beginning of 1933. Administrative and operative costs have also been lowered and some reduction has been made in capital costs, but resistance to liquidation has been particularly strong in this field.. This is brought out by the following table :

Changes in Selling Prices and Production Costs of Manufacturing Industries in the United States, 1927-1931. [1]

(Measurements relate to changes per unit of product.)

Year	Average selling price	Average cost of materials	Average cost of fabrication	Average labour cost	Average overhead cost, plus profits
1927	100	100	100	100	100
1929	98	95	102	93	108
1931	78	72	89	80	95

This slow reduction of the overhead unit costs of production contrasts with the much more effective liquidation carried through in the previous crisis from 1919-1921. The comparable figures may be summarised as follows :

	Percentage 1919-1921	decline 1929-1931
Average selling-price of manufactured goods	22	20
Average costs of manufacture, per unit of product :		
Materials	23	24
Fabrication	18	13
Labour	6	14
Overhead, plus profits	27	12

[1] National Bureau of Economic Research, *Bulletin*, No. 40. Frederick C. Mills : " Changes in Physical Production, Industrial Productivity and Manufacturing Costs ".

It was the large volume of industrial debt that was contracted on the basis of a higher price-level in the years 1922-1929 that proved the most difficult obstacle in the way of adjusting the prices of finished products to those of raw materials. The burden of capital costs was difficult to reduce. Where, as in the cartellised industries producing investment goods, it proved possible to maintain prices, the resistance to liquidation of the capital structure was particularly strong. The dilemma thus created had not been solved at the beginning of 1933. A revival of investment and productivity was still checked by the relatively high prices of investment goods. Efforts to stimulate investment by the provision of abundant and cheap credit had proved ineffective and, in default of such stimulation, the prices of raw materials and foodstuffs lacked the support of effective demand.

Chapter III.

THE DISORGANISATION OF PRODUCTION.

Statistics of World Production.

The previous chapter outlined some of the salient aspects of the confusion into which the price system has fallen during the depression and laid special stress upon the disruption of price equilibria, both international and industrial. Such substantial shifts in price relationships are of great importance in their effects upon the distribution of national incomes, altering the shares received by those — wage-earners, owners of capital, and producers of raw materials — who co-operate in the production of commodities and services. Even if no alteration in the available volume of goods and services had resulted, price changes would have brought about drastic readjustments in the distribution of income.

Since, however, productive organisation is, in fact, greatly influenced by the relative prices of different goods and services, account must be taken also of the disorganising effects of violent price fluctuations on production. There is, obviously, action and reaction between these phenomena, price changes being influenced by, and in turn causing changes in, the structure of production. In the *Survey* for 1931-32, which dealt largely with the background and early development of the crisis, the chapter on production was placed before that on prices in view of the importance attached to the rôle of structural changes in productive organisation in creating the conditions which were responsible for the fall in prices. A previous chapter, however, had been devoted to the part played in promoting such structural changes, and also in disturbing price equilibria more directly, by monetary policies in the period preceding the depression. It is always difficult to disentangle such complex factors as those which operate to create violent price fluctuations, and the order of priority decided upon in any discussion must

depend largely upon an estimate of the relative emphasis to be given one factor or another at any particular time. In the *Survey* for 1931-32, emphasis was laid upon structural changes in industry, caused in part by monetary policies, as an important factor among those responsible for the fall in prices ; but attention was called to the fact that the falling price-level and the disequilibria which emerged as prices fell were in turn exercising an important influence upon industrial organisation.

In the present *Survey*, the order of treatment has been reversed, prices being discussed before production, as an indication of changing emphasis at a different stage in the cycle. Stress is laid now rather upon the disturbing effects of the price disequilibria created as the general level of prices has fallen. It has already been shown that these disequilibria have caused a considerable diminution of production and have acted as blocks to any substantial recovery of industrial activity. The present chapter is mainly devoted to an examination of the statistics which measure the decline of production ; but in the course of that examination it becomes quite clear that the disorganised state of production is a cause as well as an effect of falling prices. It is this constant action and reaction of one set of phenomena upon the other that constitutes the main difficulty, not only of economic analysis, but also of practical action to remedy the depression. In more normal times, with a more flexible economy, corrective forces within the economic system were generally sufficient to readjust prices and production ; but, in a time like the present, when fluctuations have been exceptionally violent and when, moreover, rigid inflexibilities have appeared at various points in the economic organisation, the natural recuperative powers of free enterprise appear to be insufficient to restore balanced production and prices.

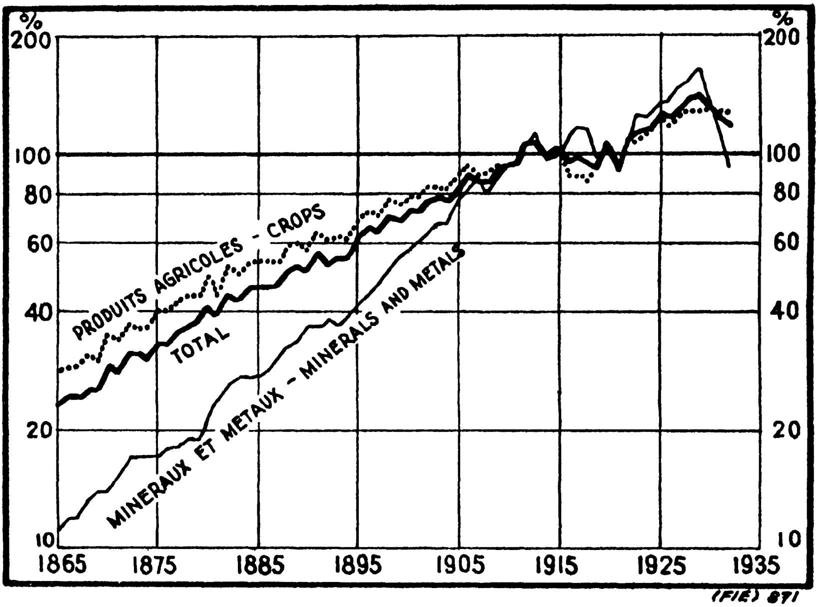
For many decades before the war, world production, according to the best estimates available, increased with remarkable regularity of trend, broken only in minor degree by successive crises. This trend of increase ran through both the period of declining prices from 1873 to 1895 and the period of rising prices from 1895 onwards. Most of the estimates available over such a long period measure the production of raw materials and foodstuffs. The index of world production calculated by the New York Federal Reserve Bank, for example, is compiled from the production statistics of important crops and mineral raw materials. The diagram reproduced on the following page, showing the results of these calculations, gives a clear picture of fairly regular increase till 1913-14, when a minor depression was turned into a definite decline in production during the war period. The post-war recovery appears from the diagram to have proceeded at a rather greater annual rate of increase,

starting, however, from a much lower level than might have been the case if the war had not interrupted the previous trend.

The statistical basis upon which such estimates rest is necessarily somewhat slender, and too much importance should not be attached either to the precise figures or to the exact rates of increase ; but there is no reason to believe they do not correctly indicate the general trend of development.

Indices of Total World Production of Basic Commodities since 1865. [1]

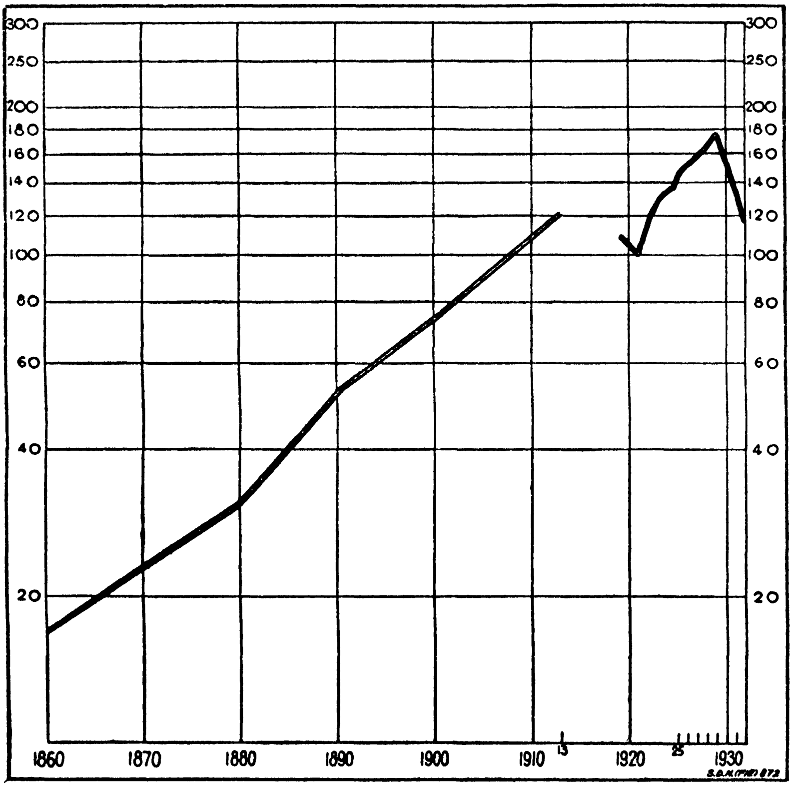
(Base : 1910-1915 = 100.)



If account be taken of the various forms of manufacturing activity, the available calculations indicate that the total of world production (as distinct from the production of raw materials and foodstuffs) in the pre-war period not only increased at a faster rate, but fluctuated more widely than the curves shown in this diagram. The rate of increase shown in the diagram which follows is much closer to that of minerals and metals than to that of crops in the preceding diagram, since manufacturing production undoubtedly increased much faster than population and the need for foodstuffs.

[1] Federal Reserve Bank of New York, *Monthly Review*, May 1933.

Index of World Industrial Production, 1860-1932.[1]
(Base: 1901-1913 = 100.)



In the war period it is evident that the decline of production was caused more by declining food supplies, largely due to the reduction of production in Europe, than by the decline in mineral production, and it is probable that manufacturing production increased at that time even more than the production of raw materials would suggest. Even so, production as a whole was much below the levels that might have been expected if the pre-war trend had continued. The statistics of production, therefore, reveal the fact that the prosperity and economic activity of the war period were largely illusory. Monetary

[1] Institut für Konjunkturforschung — *Sonderheft* 31 — " Die Industriewirtschaft ". The index includes mainly mining, the heavy iron, textile and food industries.

inflation concealed the real diminution in wealth which was the result of the disturbance to productive organisation.

For the post-war period, and particularly the years of depression since 1929, the results obtained by the League's investigations confirm those obtained by the Federal Reserve Bank of New York and the German Institut für Konjunkturforschung. There has been, since 1929, a much greater decline in world production as a whole than any recorded in previous crises ; that decline has been concentrated mainly in manufacturing production, which has suffered even more severely than the production of metals and minerals ; agricultural production, on the other hand, " has shown nothing more than a halt in its upward trend ". These facts appear clearly in the following table comparing various indices of world production.

Indices of World Industrial Production compared with Indices of World Production of Industrial Raw Materials and Foodstuffs.
(Base : 1925-1929 = 100.)

Index	1925	1929	1930	1931	1932
Institut für Konjunkturforschung:					
World industrial production (including U.S.S.R.)	92	111	100	90	77
World industrial production (excluding U.S.S.R.). . . .	93	110	96	84	69
League of Nations :					
World production of industrial raw materials (including U.S.S.R.).	92	111	102	91	79
World production of industrial raw materials (excluding U.S.S.R.).	93	111	100	89	76
World production of foodstuffs (including U.S.S.R.) . . .	98	103	103	102	103
World production of foodstuffs (excluding U.S.S.R.) . . .	98	103	102	102	104
World production of all agricultural products (including U.S.S.R.).	98	104	103	103	102
World production of non-agricultural products (including U.S.S.R.).	90	114	101	86	73

It will be seen that two sets of indices are given, including and excluding the U.S.S.R. In order to bring out more clearly the importance of this distinction, it is perhaps necessary to

summarise the statistical information which is available concerning production in that country. The figures quoted below are derived from official statistics published by the Soviet Government. [1]

The economic side of the Five-Year Plan for the reconstruction of agriculture and industry in Soviet Russia may be roughly summarised by describing the plan as an attempt, on the one hand, to re-organise agriculture upon a large-scale, collectivist basis, and, on the other hand, the rapid construction of the basic heavy industries — mineral production, transport, electric power, metallurgical and machine production — necessary to provide a foundation for the future extension of a wider range of manufacturing industry. The whole plan, drafted in great statistical detail, has been directed in accordance with centralised State policy. Monetary expansion has been accompanied by Government monopoly of foreign trade and the foreign exchanges, the external value of the rouble being maintained at gold parity, while its domestic value has depreciated. Despite rapidly increasing production of industrial raw materials and, to a less extent, of heavy manufactures, standards of living have remained low and have even decreased, the extra resources made available being utilised for capital construction. In fact, also, the equipment programme has been facilitated by long credit on the part of exporters in foreign countries,[2] and by the shipment abroad, particularly in 1930-31, of large quantities of foodstuffs and raw materials — for example, wheat, wood and petrol.

Difficulties of organisation in the later stages of the plan appear to have slowed up the rate of progress substantially. In such a vast scheme of reconstruction, the problem of maintaining an even pace of advance along a wide front was not a simple one. At times and in places transport was inadequate, raw materials short, essential machinery lacking, and, in consequence, the general rate of progress was slowed down and some confusion created. More definitely, in the last two years agricultural

[1] For critical estimates of these statistics cf., *e.g.*, V. Timoshenko, "Agricultural Russia and the Wheat Problem", Stanford University, 1932 ; and *Wochenbericht des Instituts für Konjunkturforschung*, December 14th, 1932.

[2] The foreign debt of the U.S.S.R. was, according to an estimate of E. M. Shenkman in *Weltwirtschaftliches Archiv*, October 1932 :

	Roubles (000,000's)
October 1929	415
October 1930	625
October 1931	855
June 1932	975

production has fallen and the lack of agricultural surpluses to exchange for further industrial equipment has reduced imports, besides still further lowering, in many regions very seriously, the already low standard of living. Agricultural production in 1932 was seriously deficient in many regions.

The Industrial Development of the U.S.S.R. [1]

	Unit	1928	1929	1930	1931	1932
Electrification :						
Generating capacity	Kw. (000's).	1,874	2,344	2,894	3,878	4,567
Production of electricity	Kw. hours (000,000's).	5,003	6,386	8,231	10,453	13,100
Industry :						
Gross production of census industries:						
Total	Milliard roubles at1926-27prices.	15.7	19.8	25.2	30.9	34.3
Producers' goods .	,,	7.0	9.0	12.7	16.0	18.0
Consumers' goods .	,,	8.7	10.8	12.5	14.9	16.3
Production :						
Coal and lignite .	Tons (000,000's).	35.8	41.7	47.1	53.5	63.0
Raw oil	,,	12.3	14.5	18.6	22.3	21.4
Pig-iron	,,	3.3	4.3	5.0	4.9	6.2
Steel	,,	4.2	4.9	5.8	5.3	5.9
Machines	Roubles (000,000's) at1926-27prices.	1,122	1,619	2,421	4,796	
Agricultural machinery		—	270	453	731	890
Motor-cars	Number (000's).	0.9	1.5	8.5	20.5	...
Tractors	,,	1.4	4.5	12.7	39.9	
Cotton piece-goods	M. (000,000's).	2,871	3,068	2,161	2,087	
Woollen piece-goods	,,	84	102	114	117	
Agriculture :						
Acreage	Ha. (000,000's).	113	118	122	136	134
Harvest :						
Wheat	Tons (000,000's).	21.9	18.9	26.9	...	...
Rye	,,	19.3	20.3	23.6	...	...
Cotton	Tons (000's).	254	277	345	400	...
Transport :						
Railway freight traffic . .	Tons (000,000's).	88.1	112.9	133.9	145.4	188.8
Foreign Trade :						
Imports	Roubles (000,000's).	946	836	1,059	1,105	811
Exports	,,	788	890	1,036	699	564
Monetary Conditions :						
Money in circulation	,,	2,028	2,773	4,302	5,465	6,183

[1] League of Nations *Statistical Year-Book*, 1932-33. " Report of the State Planning Commission of the Council of People's Commissars of the U.S.S.R. Summary of the Fulfilment of the First Five-Year Plan ", Moscow, 1933, also " Narodnoje Chasjajstwo ".

On the industrial side, also, the attempt rapidly to develop capital equipment on a modern scale for a vast and increasing population has resulted in much the same phenomena of unbalanced production and over-capacity in the heavy industries as were the result of the investment boom in the rest of the world from 1925 to 1929. Russia's boom, different in management and policy, but essentially similar,[1] and even exaggerated in its economic development, continued till 1932 ; but in that year idle and unfinished plant betrayed the unbalancing of production. The special difficulties connected with the improvisation of a skilled labouring force and the co-ordination of industrial equipment have made the great effort at rapid capital construction much more costly than it might otherwise have been.

It is beyond the scope of this survey to attempt any estimate, if, indeed, such an estimate is yet possible, of the extent to which the difficulties both of agricultural and of industrial organisation are likely to prove permanent or destructive of the Soviet system. Nor will any attempt be made to estimate the probabilities of the increased industrial equipment being used in future, on the one hand, to meet the increased domestic demands which may arise because population increases or the low standard of living rises, or, on the other hand, to compete on world markets either in the east or in the west.

Finally, to summarise the geographical changes in the world production of foodstuffs and raw materials, the table given on page 90 of the *Survey* for 1931-32 is here brought up to date. It will be noticed that the provisional estimates for 1931 have been revised.

General Indices of World Production of Crude Foodstuffs and Industrial Raw Materials, weighted by 1930 Values.

(Base : 1925-1929 = 100.)

Continental groups	1925	1929	1930	1931	1932[2]
Europe, excluding U.S.S.R. . .	95	112	103	99	99
Europe, including U.S.S.R. . .	94	111	105	102[2]	101
North America	97	102	94	90	82
Latin America	95	104	104	99	90
Africa	95	109	107	103	102
Asia, excluding U.S.S.R. . . .	97	104	109	103	101
Oceania	93	102	111	109	111
World	96	106	102	98	94

[1] Cf. J. Åkerman, " Det Ekonomiske Läget, 1932 ", Stockholm 1932.
[2] Provisional.

It is of interest also to analyse in more detail the movements of production in recent months. As the following diagram shows, the lowest levels of production were reached in most countries in the third quarter of 1932. The substantial rise in most cases in the fourth quarter of the year, followed by a further fall in the first quarter of 1933, which, however, did not reach the low point of the depression, substantiates the outline of economic developments recorded in Chapter I. At the time of writing, in the first days of June 1933, there was a renewal of the upward trend of production in most countries.

The Maintenance of Agricultural Production.

The maintenance of agricultural production throughout the depression, despite the extraordinarily low levels of prices ruling for foodstuffs and raw materials, has given evidence of the marked stability and the fundamental importance of farming even in modern highly developed capitalistic economy. The provisional estimates now available for 1932 show that, in most parts of the world, and in the world as a whole, the production of foodstuffs increased as compared with 1931 and reached levels as high as or higher than those of 1929. This stabilised production, though in marked contrast with the decline in industrial production, yet falls below the levels which might have been reached if the pre-war trend, or even the trend from 1925-1929, had been continued, levels, it may be added, which are warranted by increasing population.

Indices of World Production of Crude Foodstuffs, weighted by 1930 Values.

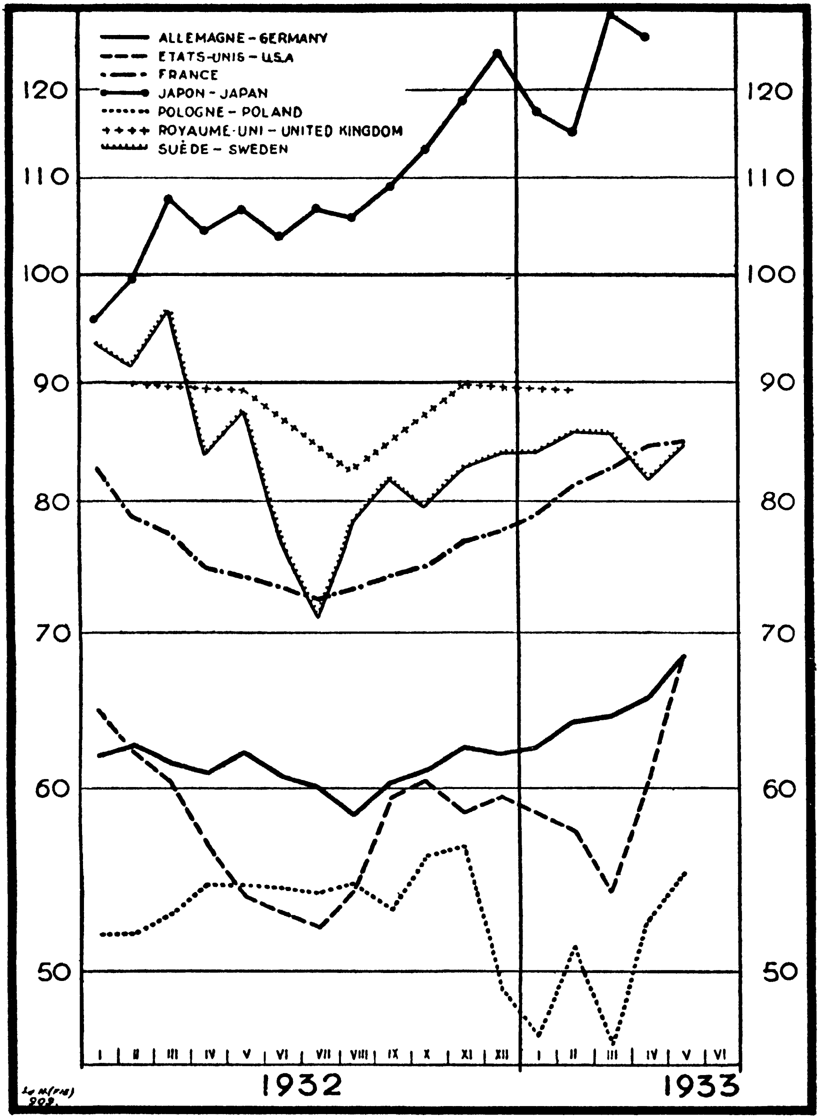
(Base : 1925-1929 = 100.)

Continental groups	1925	1929	1930	1931	1932[1]
Europe, excluding U.S.S.R. . .	98	109	104	105	110
Europe, including U.S.S.R. . .	97	108	105	104[1]	106
North America	99	96	94	97	101
Latin America	97	102	103	99	94
Africa	95	107	105	108	110
Asia, excluding U.S.S.R. . . .	98	103	108	106	102
Oceania	93	102	119	116	118
World	98	103	103	102	103

[1] Provisional figures.

Monthly Indices of Industrial Production in Individual Countries to March 1933.

(Base: 1928 = 100)



Note. — Indices are adjusted for seasonal variations except in the case of France, Japan and the United Kingdom.

The production of agricultural raw materials has not been maintained quite so well, but throughout the world, except in Asia, has suffered much less than the production of non-agricultural raw materials.

Indices of World Production of Agricultural Raw Materials, weighted by 1930 Values.
(Base : 1925-1929 = 100.)

Continental groups	1925	1929	1930	1931	1932[1]
Europe, excluding U.S.S.R. . .	94	121	84	89	83
Europe, including U.S.S.R. . .	95	115	95	105[1]	100
North America	104	100	98	113	86
Latin America	96	95	102	106	81
Africa	97	111	107	94	93
Asia, excluding U.S.S.R. . . .	95	105	109	96	95
Oceania	91	104	102	108	110
World	97	105	103	103	93

These two tables, read together, indicate the influence of changes in relative prices of agricultural commodities. As will be shown later, the fall both in the production of industrial raw materials and in manufacturing production has been very severe. The demand for agricultural raw materials such as textiles therefore fell heavily. The fall in demand also caused a sharp contraction of such agricultural products as rubber ; but, in addition, there appears to have been a considerable shift from such commodities as textiles to the production of foodstuffs. This change-over has further been stimulated by policies of agricultural protection, which, as shown in the previous chapter, have in many countries maintained the prices of foodstuffs, and particularly cereals, at much higher levels than the prices either of foodstuffs or of agricultural raw materials in world markets. This fact is of some importance in considering whether there is, in reality, a general state of agricultural overproduction in the world.

The group indices of production bear out the conclusion that the increase of agricultural production during 1932 was partly due to a shift from raw materials to foodstuffs. Such a shift is obviously not easy in many regions ; but the marginal areas which can be used for different sorts of crops, or the breeding of animals for food rather than for raw material production, such as usually takes place in the later stages of a prolonged depression, are quite sufficient to bring substantial changes of production. It will be seen from the table below

that, while the production of cereals has increased by 4 per cent since 1929, the production of textiles has fallen by 10 per cent, that of rubber by 19 per cent, of vegetable-oil materials by 8 per cent and that of the tropical beverages — coffee, tea, cocoa — by 19 per cent.

Group Indices of Production in the World as a Whole, weighted by 1930 Values. [1]
(Base : 1925-1929 = 100.)

Groups of products	1925	1929	1930	1931	1932 [2]
Cereals [2]	100	100	102	100 [3]	104
Cereals and other food crops [2]	99	101	104	102 [3]	104
Meat [1]	94 [3]	105 [3]	102 [3]	103 [3]	...
Wine and hops	109	107	92	99	103
Coffee, tea, cocoa	88	120	94	110	103
Tobacco	99	107	111	109	...
Vegetable-oil materials	95	106	102	104	98
Textiles	96	106	103	105 [3]	95
Rubber	79	132	126	122	107
Wood pulp	85	117	114	99	...
Fuels	93	110	102	92	84
Metals	88	116	95	71	51
Non-metallic minerals	87	112	107	93	77
Chemicals (fertilisers)	88	121	114	87	...
All agricultural products	98	104	103	103	102
Crude foodstuffs	98	103	102	102	103
Agricultural raw materials	97	105	103	103	93
Non-agricultural raw materials	90	114	101	86	73
All industrial raw materials	92	111	102	91	79
General index	96	106	102	98	94

The declines in rubber and in coffee, it may be added, are calculated from extraordinarily high peaks in 1929. Part of the investment boom in the years 1925-1929 was the undue stimulation of these tropical crops.

If the undue expansion of these tropical agricultural products during the boom is set aside as a special problem which the depression has already gone far to correct — as far as surplus production is concerned if not in regard to accumulated stocks — it is clear that it is difficult to uphold the view that there is any great amount of over-production of agricultural products at the present time. On the contrary, a comparatively slight

[1] League of Nations *World Production and Prices*, 1925-1932.
[2] Excluding China, except certain crops and meat in Manchuria.
[3] Figures partly based on estimates or subject to revision.

change in demand might well reveal a problem of under-production and scarcity. Such a conclusion may appear paradoxical at a time when so much attention is centred upon the great accumulated stocks of agricultural foodstuffs and raw materials which overhang world markets. The experience of the last crisis (1920-21) is sufficient, however, to demonstrate how quickly very great accumulations of raw materials may be dissipated when trade is restored and demand revives.

The fact that there has been some change-over from the production of industrial raw materials to that of foodstuffs emphasises the possibility of accumulated stocks ceasing to be burdensome, if trade barriers are lowered and industrial production revives. An increase of 20 per cent in the activity of those industries which utilise textile raw materials, for example, would quickly alter the agricultural price situation in certain areas.

It is true that, in recent years, for social and political as well as economic reasons, agricultural protection in many countries, particularly the industrial countries of Western Europe, has grown to the point where, under present conditions, a problem of temporary over-production, at least of cereals, has been created. Before attempting to analyse the factors, in Europe and elsewhere, that have created this situation, the statistical position may perhaps be illustrated by the following table showing the production of wheat in various areas during recent years. This table should be read together with the price statistics given in the preceding chapter, not only for wheat, but for other cereal products.

Wheat Production in Importing and Exporting Countries. [1]
(Quintals, 000,000's.)

Countries	1925-26 to 1929-30	1930-31	1931-32	1932-33
European importing countries	261	252	268	330
European exporting countries[2]	104	119	123	74
Overseas exporting countries [3]	463	469	444	433

[1] League of Nations *Statistical Year-Book*, 1932-33, *Bulletin Mensuel de Statistique Agricole et Commerciale*, International Institute of Agriculture, Rome, February 1933.
[2] Bulgaria, Hungary, Poland, Roumania, Yugoslavia.
[3] Argentine, Australia, Canada, United States of America.

While these statistics must be interpreted cautiously in the light of harvest variations, they reveal the fact that the non-European exporting countries have at least maintained their production, despite an unfavourable harvest in the United States in 1932-33, at the same time as the European importing countries, aided it is true by good harvests in 1932-33, have greatly increased their production. The decline in the European exporting countries was largely caused by a poor harvest, and the elimination of the U.S.S.R. from the statistics does not greatly change the situation, since the production there seems to have fallen in 1932-33. Fuller details of the changes in acreage and yield are given in the table below :

Area and Yield of Wheat Production in Certain Countries, 1929 to 1932.

(Base : Average 1926-1930 = 100.)

Country	Area				Production			
	1929	1930	1931	1932	1929	1930	1931	1932
European Importing Countries :								
France	102.2	101.7	98.4	101.4	124.5	84.2	97.5	122.3
Germany	94.6	105.3	128.1	134.8	99.3	112.3	125.5	148.3
Italy	97.6	98.6	98.3	101.3	116.6	94.2	109.7	123.8
Spain	98.5	103.2	104.3	103.7	107.9	102.6	94.0	124.8
Switzerland . . .	98.6	101.4	101.4	103.8	102.4	87.2	97.7	100.5
Sweden	105.5	119.1	125.5	137.2	111.0	121.6	105.4	150.8
United Kingdom.	90.9	92.2	82.1	88.1	100.1	85.0	76.1	87.7
European Exporting Countries :								
Hungary	93.8	105.9	101.4	98.6	91.4	102.8	88.4	71.4
Roumania. . . .	88.7	99.0	112.3	93.0	90.1	118.1	122.2	53.9
Yugoslavia . . .	109.3	110.0	110.9	101.1	116.8	98.8	121.5	65.7
U.S.S.R.	98.7	108.1	123.7	115.4	82.6	117.7	...	...
Non-European Exporting Countries :								
Argentine	76.1	93.4	82.8	94.7	64.7	92.4	87.4	92.1
Australia	104.1	126.3	100.8	108.3	81.5	137.1	121.8	128.4
Canada	105.6	104.1	109.2	113.6	69.9	96.5	73.7	98.3
United States . .	105.4	102.9	93.1	92.8	94.6	99.8	104.8	84.6
Total World Production [1] . . .	105.0	108.8	105.6	102.2	100.3	107.4	106.7	101.2

[1] Excluding U.S.S.R.

The increased production revealed in these tables must be considered in the light of the price movements discussed in Chapter II, the accumulation of stocks discussed in the following section of this chapter, the paralysis of capital movements discussed in Chapter X, and the increasing restrictions on international trade discussed in Chapter VIII. When all these factors are considered together, it becomes clear that such over-production as exists is not great relatively to world demand even at the present time and would be still less if consumption should appreciably revive in the near future. The problem is essentially one of restricted trade and broken markets — as such, it is sufficiently serious. The fact that in many European countries at the end of 1932 the domestic price of wheat was from three to four times as great as the domestic price in Canada is clear proof that the production in those countries is vulnerable and could not be maintained at its present levels except by costly subsidies. The situation has been reached, therefore, where many Governments are paying heavy subsidies to maintain production, which is sold at three times the price ruling in other countries where the Governments (as in the United States) are contemplating or actually administering restriction schemes which involve payments to farmers for not growing wheat.

While it is sufficiently clear that a lifting of trade barriers and a revival of consumption might quickly change the whole situation, the difficulties of removing the trade barriers should not be under-estimated. As long as prices remained at the low levels ruling in March 1933, the countries which had expanded their wheat production behind the shelter of tariff and other forms of protection were reluctant to invite the demoralisation of their farming industries by a removal of this shelter. They demanded that prices should rise, if necessary by prior action taken to control the marketing of stocks and to regulate production in the non-European exporting countries, before they could consider an abatement of their agricultural protection. Even if these conditions should be obtained, however, the social and political, as distinct from the economic, reasons for such protection would preclude drastic or hasty action.

The Decline of Manufacturing Production.

In sharp contrast with the facts recorded in the preceding section, the production of industrial raw materials, and still more of manufactured products, has declined very substantially. After 1929, the decline accelerated from year to year ; but the low point was reached in the third quarter of 1932 and there has

been some recovery, on balance, since then. The production of raw materials fell by slightly less than 10 per cent in 1930 from the 1929 levels; the fall from those levels was almost 20 per cent in 1931 and 30 per cent in 1932.

There is no precedent for such a marked decline. Statistical series ranging back to 1860 fail to reveal any previous period in which the decline in either raw-material production or manufactures has been so precipitate or so severe. Independent estimates agree that, in 1932, the level of industrial production in the world as a whole fell below that of 1913. [1]

The damage wrought by the war and post-war disorganisation of industry may be estimated by comparing the actual position of production in 1932 with that which might have been reached if the pre-war trend of increase had continued. If the line of trend from 1860 to 1913 is extended to 1932, the rather startling conclusion is reached that the index of world production, on the hypothesis that nothing had occurred to alter its regular upward trend for the fifty preceding years, would to-day be rather more than twice as great as it actually is. While such a conclusion must remain highly speculative and hypothetical, it affords some measure of the cost to the world of the disturbances to productive organisation in the last twenty years. The existence of accumulated stocks of certain commodities and of over-capacity in some industries must be considered with the statistical evidence of greatly reduced production which follows.

Index-Numbers of Industrial Raw Material Production, weighted by 1930 Values. [2]

(Base : 1925-1929 = 100.)

Continental groups	1925	1929	1930	1931	1932 [3]
Europe, excluding U.S.S.R. . .	90	117	102	90	80
Europe, including U.S.S.R. . .	89	117	106	97	90
North America	94	108	94	82	61
Latin America	91	111	107	98	77
Africa	95	112	109	95	90
Asia, excluding U.S.S.R. . . .	93	107	111	99	98
Oceania	93	103	99	99	101
World	92	111	102	91	79

[1] Cf. the series quoted in the first section of this chapter — viz., those of the Economic Intelligence Service of the League of Nations and the German Institut für Konjunkturforschung.

[2] League of Nations, *World Production and Prices*, 1925-1932.

[3] Provisional figures.

If attention is now turned to world industrial production, which includes mainly manufacturing and mining, it will be seen that there has been a decline of probably 37 per cent if the U.S.S.R. is excluded from consideration. This decline of 37 per cent is the estimate of the German Institut für Konjunkturforschung according to its index of world industrial production reproduced below. In the same table, the indices of industrial production of certain larger groups of countries are given.

International Indices of Industrial Production[1] *and World Indices of Production of Industrial Raw Materials.*[2]
(Base : 1925-1929 = 100.)

Nature of indices	1925	1926	1927	1928	1929	1930	1931	1932[3]
I. *Indices of Industrial Production :*								
A. World, excluding U.S.S.R. .	93	94	100	103	110	96	84	69
(a) " Industrial " Europe . .	91	87	103	106	112	103	90	(78)[4]
(b) United States and Canada	95	98	97	101	109	87	74	58
(c) " Agricultural " Europe .	90	95	101	102	110	104	97	...
(d) Rest of the world (ten countries in Latin America, Africa, Asia and Oceania)	91	98	99	103	109	112	103	...
B. World, including U.S.S.R. . .	92	94	100	104	111	100	90	77
II. *Indices of Production of Industrial Raw Materials :*								
A. World, excluding U.S.S.R. . .	93	94	99	103	111	100	89	76
B. World, including U.S.S.R. . .	92	94	99	104	111	102	91	79

The movements of the sub-indices in this table are of considerable interest. The fall in production has been much smaller in agricultural Europe and in the group of chiefly agricultural countries in Latin America, Africa, Asia and Oceania than in the highly industrialised countries in Europe and North America. Almost all the countries included in these two resistant groups have a comparatively young industrial system built up largely during and after the war.

The division made above between various groups of countries

[1] Institut für Konjunkturforschung.
[2] Economic Intelligence Service.
[3] Provisional indices, subject to revision.
[4] Rough estimate based on incomplete data.

may usefully be supplemented by reference to the following national indices of industrial production.

The index-numbers given in the table below show the course of industrial development for several countries in the four years 1929-1932 :

National Indices of Industrial Production in Certain Countries.
(Base : 1928 = 100.)

Country	Compiler of index	1929	1930	1931	1932
United States .	Federal Reserve Board .	107	86	73	58
Germany . . .	Institut für Konjunkturforschung	100	90	74	61
United Kingdom	Board of Trade	106	98	89	88
France	Statistique générale . . .	109	110	98	76
U.S.S.R. . . .	Gosplan.	124	156	189	205 [1]
Japan	Mitsubishi Econ. Research Bureau	111	106	101	108
Czechoslovakia.	Dr. K. Maiwald	104	91	81	59
Belgium . . .	Institut des Sciences économiques, Louvain . . .	100	90	79	68
Sweden	Kommerskollegium. . . .	113	112	107	101 [2]
	Sveriges Industriförbund .	106	102	89	84
Poland	Institut de Recherches sur le mouvement des affaires	100	82	69	54
Austria	Œsterreichisches Institut für Konjunkturforschung	103	87	76	66
Hungary . . .	Inst. für Wirtschaftsforschung	98	85	69	61
Denmark . . .	Statistiske Departement .	108	118	108	...
Norway . . .	Statistiske Centralbyrea .	111	112	86	...
Canada	Dominion Bureau of Statistics	108	92	77	63

The production of manufactured commodities, except in the United Kingdom, where the home market has been sustained, has fallen more than that of raw materials, and the following table shows how great the disparity has been.

[1] Average January-September.
[2] Estimated on the basis of the Sveriges Industriförbundets Index

The Production of Raw Materials and Manufactured Commodities.
(Base : 1929 = 100.)

Country	Production	1930	1931	1932
Canada . . .	Mining	94	81	76
	Manufactures	83	72	63
U.K.	Mining	94	85	80
	Manufactures	91	84	84
U.S.A..	Mining	86	73	62
	Manufactures	80	67	53

The variant movements disclosed by the national indices of industrial production may be summarised roughly in the following comparison.

The Relative Decline in Industrial Production in Certain Countries,
1929-1932.
(World Average = 30.6.) [1]

Countries in which the decline has been less than the world average		Countries in which the decline has been more than the world average	
U.S.S.R.	+ 65	Belgium	— 32
Japan	— 3	Hungary	— 38
Sweden	— 11	Germany	— 39
United Kingdom.	— 21	Canada	— 42
France	— 30	Czechoslovakia .	— 42
		Poland	— 46
		United States . .	— 46

Indices of industrial production are not available for many agricultural countries ; but there is much evidence that the decline in such countries was less than in most of the more highly industrialised States. The increased import restrictions which the agricultural countries imposed to protect their balances of payments and the strong movement towards industrial self-sufficiency are perhaps the strongest reasons for this development. The counterpart of increased agrarian production in the manufacturing countries has been an encouragement to industrial production in the agrarian countries. In both directions, the world has moved towards national self-sufficiency and away from international interdependence.

[1] Institut für Konjunkturforschung. U.S.S.R. included.

This conclusion is supported by the fact that export industries, despite the temporary stimulus given to them in many countries — the United Kingdom, Sweden and Japan, for example — by exchange depreciation, suffered more heavily than production for the home market. This fact may be inferred from the following table — the index-numbers both for production and trade referring to quantum, not values.

Indices of Industrial Production and Exports.
(Base : 1929 = 100.)

Country	Quantum of production			Quantum of manufactured exports		
	1930	1931	1932	1930	1931	1932
France	100	89	69	89	76	59
Germany	88	72	60	95	86	59
United Kingdom	92	84	83	82	63	63
United States	81	68	54	81	65	50 [1]

Three factors have been of special importance during 1932 in determining the volume of industrial production in different countries. The rapid strangulation of world trade has affected export industries directly, and domestic industries indirectly, by reducing world markets and depressing the prices of export commodities. It is true that certain domestic industries have been temporarily stimulated by the exclusion of imports; but this partial and temporary stimulus to domestic industry, even in the most self-sufficient countries, has not gone far to compensate for the destructive effects of restricted international trade.

Exchange instability has also been a disturbing influence. In some of the countries which abandoned the gold standard, the export industries received an immediate, but in most cases a merely temporary, stimulus. This stimulus was limited by further falls in prices, increasing trade restrictions, and the generalisation of currency depreciation. On the whole, it was the home markets which were best sustained in the countries which abandoned the gold standard.

It would appear that those countries which maintained the gold standard in full operation during 1932 (*e.g.*, Belgium, France, the United States of America) and those which maintained the external value of their currencies by rigid exchange controls (*e.g.*, Germany, Austria and Hungary) or by import restrictions, which served much the same purpose (as in Poland), have found

[1] Estimate.

their industrial production decline most heavily, while those which departed from the gold standard (*e.g.*, the United Kingdom, Japan, Sweden) maintained their production at least for the domestic markets. On the other hand, recovery in the autumn of 1932 was most marked in the gold countries, and it is arguable that, by hastening and intensifying the liquidation of unsound businesses, these countries had taken the shortest cut to ending the depression.

Financial and monetary policies have also played a large part both in domestic and in export markets. Expansionist policies such as those described later in the chapter dealing with public finance appear, at least temporarily, to have maintained and even stimulated domestic production, while countries which were able, as was Japan, to control domestic costs, while the external value of their currency depreciated rapidly, were benefited in production for export.

While the circumstances of individual countries differ, however, there was a general diminution of production in 1932, with all its economic consequences of decreased purchasing power and employment, heavier overhead costs and financial instability.

The Position of the Investment Industries.

It is a characteristic of all depressions which follow an investment boom, that falling prices and reduced consumption as soon as the boom breaks reveal over-capacity and a sharp decline of production in the heavy industries producing capital equipment. The same phenomena are apparent in the present depression in an extreme degree ; but the increased demand in the years of prosperity for goods manufactured for durable consumption, such as motor-cars and pianos, was followed by a drastic curtailment of their production when purchasing power was so greatly reduced in the depression. The investment boom was, in fact, largely based upon provision for a rapid increase in the consumption of such goods, and the drastic fall in standards of living, which has particularly affected non-essential and expensive consumption, has had the double effect of reducing the demand for, and therefore the production of, durable consumption goods and of thereby accentuating the decline in the production of investment goods, such as iron and steel products and machinery.

This phenomenon, new at least in its importance, may be described in another way by drawing a distinction between the older industries which cater for relatively simple and more essential consumers' demands and the newer industries which provide goods of durable consumption which are more expensive and less essential. The former have declined less and the latter

more during the depression. In the same way, it is the more durable types of producers' goods — locomotives and ships, for example — that have suffered most heavily as compared with the output of agricultural or textile machinery.

Running through this development also, as was noted in the *Survey* for 1931-32, there is a definite trend of industrial progress. Newer methods of production, newer industries and industries in the developing new countries have suffered on the whole less than the older types of production — electrical engineering less than steam, oil-driven ships less than steamers, motor transport (heavily hit as production has been in this line) less than railway materials, artificial silk less than other textiles. The following statistics, showing the output of various industries in Germany and the United States of America, illustrate the various factors at work.

The Decline in the Production of Various Classes of Commodities to the Lowest Point in 1932 as a Percentage of their Production in 1928-29.

(Germany : 1928 = 100.)[1]

Producers' goods	%	Consumers' goods	%
Wood-pulp	23	Paper	28
Machines	67	Textiles	29
Steel	68	Footwear	33
Rolling-mill products	71	Porcelain	62
Iron	73	Passenger cars	86
Lorries	88	Motor-cycles	90
		Pianos	95

(United States : 1929 = 100.)[2]

Producers' goods	%	Consumers' goods	%
Electrical goods[3]	78	Foodstuffs	17
Cement (Portland)	79	Cigarettes	26
Trucks	81	Shoes	33
Locomotives[4]	86	Silk consumption	36
Electric motors[3]	87	Books sold	37
Steel castings	90	Cotton textiles	48
Woodworking machines	91	Gloves and mittens	62
Machine tools	92	Household furniture[5]	76
Foundry equipment	95	Vacuum cleaners[3]	79
		Domestic power pumps	89
		Passenger cars	91

[1] Calculated from the monthly returns published in the *Wochenbericht des Instituts für Konjunkturforschung.*

[2] Calculated from the monthly returns published in *The Survey of Current Business.*

[3] Values : the quantitative reduction of output has been much less.

[4] Decrease from the average of 1927-1929 to 1932.

[5] Shipments expressed in working days' production, Grand Rapids District.

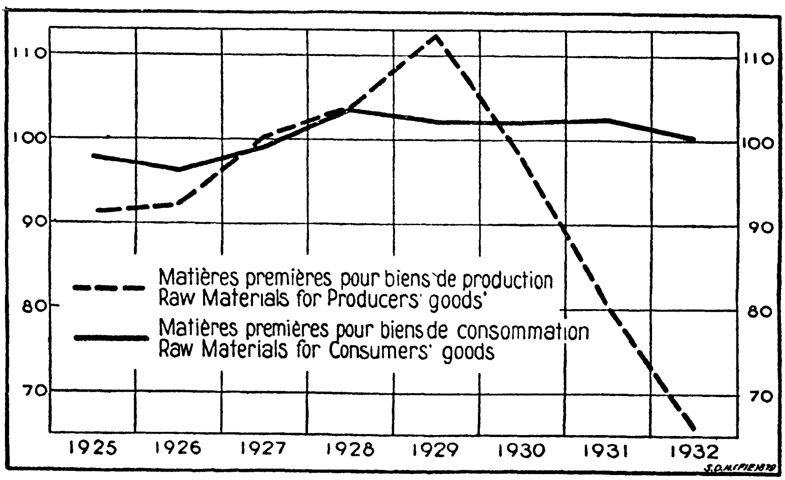
While there are obviously many special factors at work in different industries and while the general situation differs somewhat from country to country — as, for example, the greater saturation of the market reflected by the heavy decline in passenger-car production in the United States — the disproportion between the decline of production of producers' and consumers' goods is marked in every country and in the world as a whole.

It can be illustrated first of all in the production of raw materials, which has been measured as follows:

World Production of Raw Materials, excluding U.S.S.R.
(Base: 1925-1929 = 100.)

	1925	1929	1930	1931[1]	1932[1]
Raw materials for producers' goods	91	112	98	81	66
Raw materials for consumers' goods	98	102	102	103	100

Indices of World Production of Raw Materials for Producers' and Consumers' Goods.
(Basis: Average 1925-1929 = 100.)



[1] Estimates.

Part of the explanation for these figures is clear when it is stated that, except for artificial silk, all the commodities which are reckoned as raw materials for consumers' goods are agricultural in origin. The index for this group is in fact governed by the production of cereals and meat, both of which have been well maintained. The production and consumption of foodstuffs has, as might be expected, diminished less than that of any other group of commodities during the depression.

The decline in the production of finished commodities of both categories is of course greater than the decline in the production of raw materials. The information that is available on this subject in national indices is reproduced in the diagram on page 91.

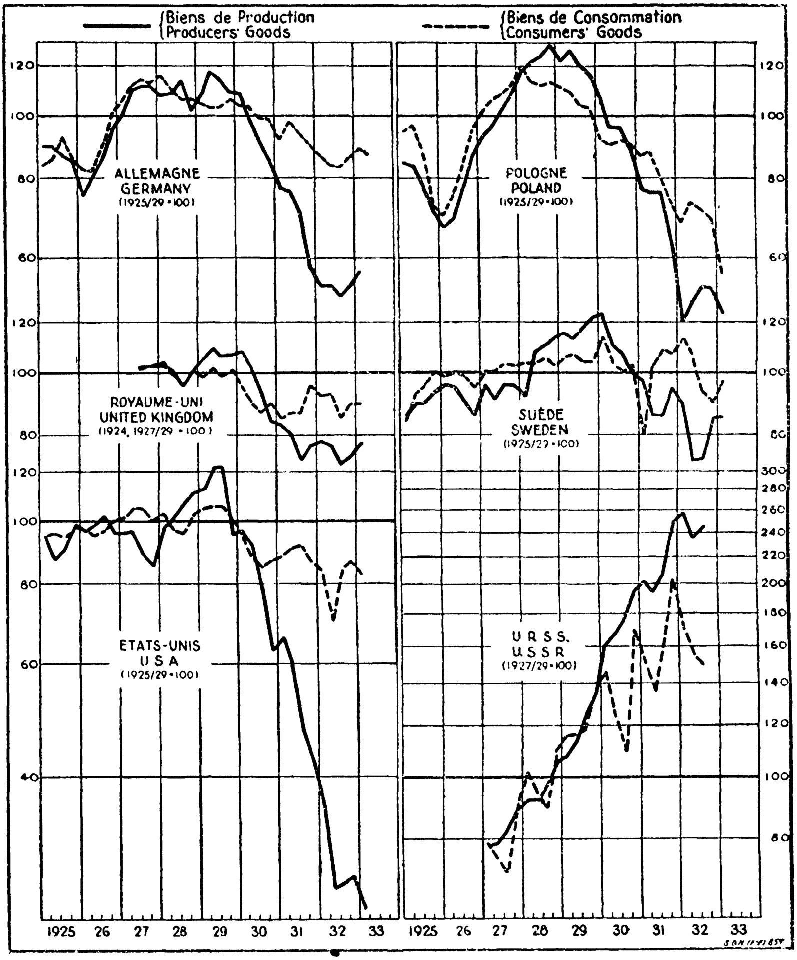
The figures are startling, especially the 1932 index of the production of producers' goods — iron and steel, tin and cement — in the United States, which fell to less than 30 per cent of the average production in the years 1925-1929, while at the lowest point in the third quarter of 1932 it was less than 20 per cent of the production in the corresponding quarter of 1929.

Nor did the quarterly figures for 1932 and the first quarter of 1933 give much ground for satisfaction, since the recovery in the fourth quarter of the year was slight and did not continue into 1933. The extent of the subsequent revival in May and June will be discussed in the last chapter of this *Survey*.

Quarterly Indices of Production of Producers' Goods, 1932-33.
(Base : Average 1925-1929 = 100.)

Country	1932				1933
	I	II	III	IV	I
Germany	54	55	52	54	58
United Kingdom (1924-1927-1929 = 100)	78	77	72	75	77
Poland	48	51	54	54	49
Sweden	89	73	73	85	85
U.S.S.R. (1927-1929 = 100)	257	234	244	...	...
U.S.A.	36	27	24	28	25

Production Indices of Producers' and Consumers' Goods in Individual Countries. (Base : 1925-1929 = 100.) [1]



The German indices are further subdivided as follows :

		1925	1929	1930	1931	1932
Producers' goods :	Investment goods . . .	88	112	91	60	40
	Other producers' goods	88	113	103	90	81
Consumers' goods :	With elastic demand .	86	100	95	90	80
	With inelastic demand	83	112	112	104	96

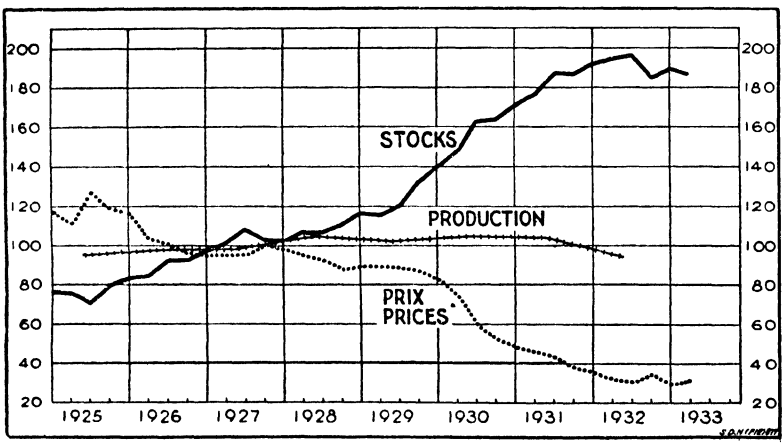
[1] Cf. League of Nations, *World Production and Prices*, 1925-1932.

The Accumulation of Stocks.

The accumulation of commodity stocks, which had been in evidence since 1925, appeared to reach its peak and begin to decline in the course of 1932. The information most readily available on this subject refers to visible stocks of raw materials, and in general only to those stocks retained by producers or in public warehouses. It is extremely difficult to obtain reliable indications of the stocks held at later stages of production — *e.g.*, by the manufacturers or by wholesalers.

While the statistics of stock accumulations contained in the table which follows are indicative of serious maladjustments between the demand and supply of the various products mentioned, they do not measure the extent to which overproduction or under-consumption exists at any particular moment. With this qualification, the statistics of stocks collected in various quarters may first be given in the form of total estimates for staple commodity stocks as a whole. Calculations have been made by the United States Department of Commerce and the German Institut für Konjunkturforschung in the attempt to arrive at such an index; and the results obtained by the United States Department of Commerce are reproduced in the following diagram :

General Index of World Stocks of Staple Commodities.



This general index may be supplemented by the statistics which show stocks of the most important raw materials and foodstuffs in more detail.

Indices of World Stocks of Primary Commodities.
(Base : 1925-1929 = 100.)

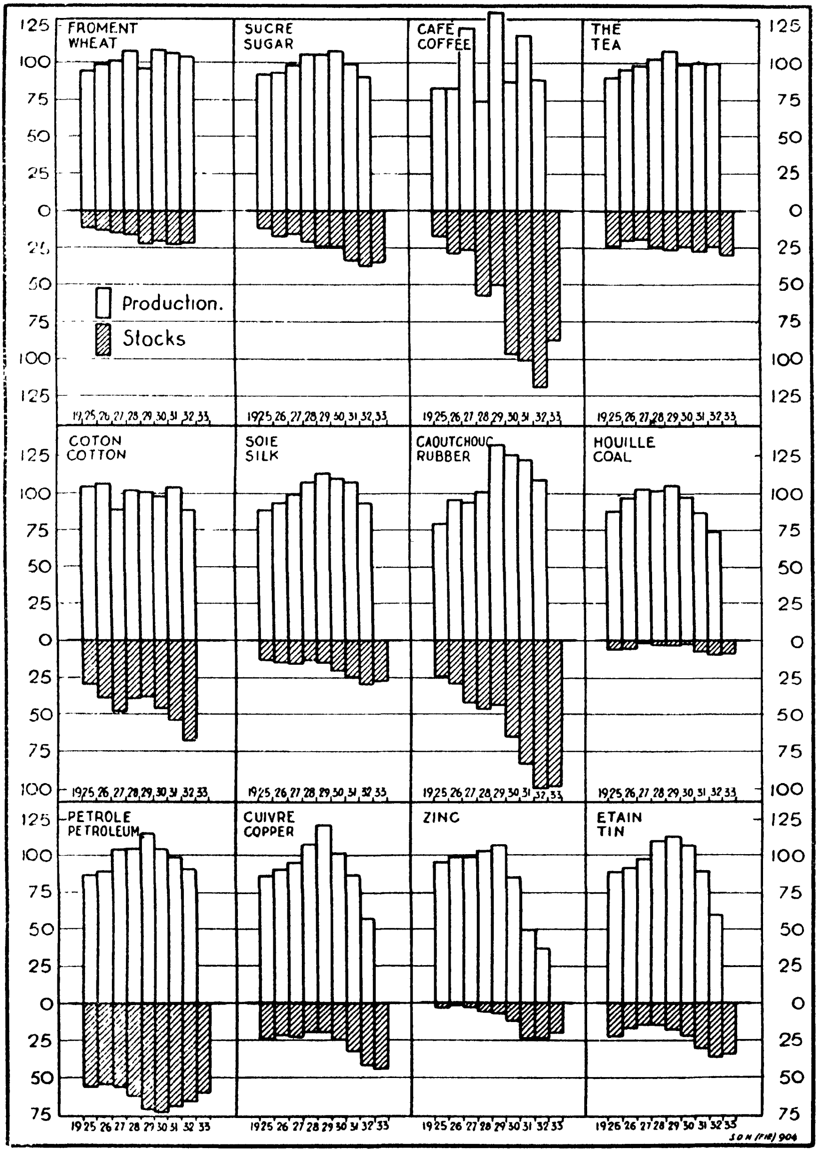
Date	General world index[1]	Wheat[2]	Sugar	Coffee	Cotton: world visible supply	Natural silk	Rubber	Petroleum (U.S.A.)	Copper	Lead (U.S.A. and U.K.)	Zinc (U.S.A. and U.K.)	Tin
1925 average	76	72	70	43	80	89	63	91	109	41	56	117
1926 ,, ...	89	76	103	73	98	90	80	90	108	73	56	89
1927 ,, ...	104	90	89	85	117	103	111	95	104	110	111	83
1928 ,, ...	108	112	109	150	101	102	118	105	85	117	134	92
1929 ,, ...	124	150	129	149	103	116	129	118	94	159	144	118
1930 ,, ...	158	155	157	243	127	174	183	118	153	311	356	169
1931 ,, ...	183	167	209	259	151	193	230	109	167	544	467	218
1932 ,, ...	194	163	230	284	161	193	262	105	(206)	730	448	219
1930 January ...	140	181	157	204	141	153	159	118	125	198	245	136
April	148	161	171	246	128	137	177	120	146	.	297	155
July	163	118	173	256	104	163	178	119	159	.	359	184
October ...	164	169	101	267	117	210	200	115	164	.	435	179
1931 January ...	172	181	196	262	173	205	210	113	161	423	464	191
April	177	187	236	253	163	168	227	111	155	.	464	218
July	189	138	196	230	132	160	226	110	171	.	477	225
October ...	186	156	190	277	124	212	236	105	189	.	458	225
1932 January ...	192	189	240	300	178	238	267	107	204	664	458	224
April	196	185	254	300	168	200	268	107	.	.	458	224
July	196	138	226	256	143	172	255	105	.	.	464	222
October ...	184	155	196	.	144	191	258	103	.	.	422	213
1933 January ...	189	184	244	249	184	216	269	99	213	795	415	207
April	187	.	249	219	171	178	267	99	...	.	454	190

Note. — The above indices should be interpreted in the light of the various explanatory notes which will be found at the foot of Table 6, Appendix I, of the League of Nations *World Production and Prices*, Geneva, 1933.

[1] General world index : based on the following nine commodities, the weights being indicated in parentheses: Cotton (9) ; sugar (6) ; wheat (6) ; rubber (3) ; coffee (2) ; copper (2) ; silk (2) ; tea (1) ; tin (1). The weights have been allocated in accordance with the value of the stocks on hand in the original base period, 1923-1925. All series, except those for copper and tin, are adjusted for seasonal variations (U.S. Dept. of Commerce ; *Survey of Current Business*, Annual Supplement, 1932, and subsequent numbers).

[2] Wheat : calculated from Broomhall's visible supply.

Production and Stocks of Staple Commodities. [1]



[1] Cf. Akerman : "Det Ekonomiske Läget", 1932, No. 1, page 15, Stockholm.

It will be observed that, while the stocks of certain commodities increased in 1932 — sugar 1.8 per cent, tea 10 per cent,[1] cotton 3.5 per cent, rubber 0.9 per cent, copper 4.6 per cent, lead 20.8 per cent,[2] other stocks decreased and the indices of world stocks as a whole were lower in the early months of 1933 than they had been a year earlier. The German index, for example, had fallen at the end of March 1933 by 5 per cent compared with the end of March 1932.[3] It is a reasonable inference that, in 1932, for the first time since the depression began, current production did not exceed the industrial buying of raw materials. Many factors are responsible for this change, the most obvious being the drastic reduction of production in the case of many important commodities, particularly those of mineral origin. As credit became cheaper and confidence revived in the autumn of 1932, the manufacturing industries and the wholesale trade began to replenish their stocks which had run down considerably during the depression.

This fact renders more important a study of the size of the accumulated stocks relatively to current production and consumption. The world's total stocks of wheat on August 1st, 1932, represented about 20 per cent of that year's harvest; sugar stocks at the end of the harvest year 1932 were about one-third of the production in that year; copper stocks were rather more than three-fourths of the 1932 production; world stocks of coffee at the end of 1932 represented fifteen months' consumption at current rates; rubber stocks represented a year's consumption and stocks of American cotton on August 1st, 1932, nearly a year's cotton-mill consumption. These estimates, however, may quickly be rendered unreliable by a recovery in industrial production and therefore in the demand for raw materials, or merely by buying on the part of manufacturers with depleted stocks. Such buying is more likely to take place when prices appear to be rising again.

The statistics of stocks, either of raw materials or of finished products in the hands of manufacturers, are very scanty and unsatisfactory. In particular, it is difficult to get quantitative records, and the best material available consists of the value of stocks as disclosed by industrial censuses, tax statistics and similar sources. Inevitably these are considerably out of date before they are published and the table which follows therefore contains no information beyond 1931. In the case of Germany, it is known, however, that commodity stocks of the limited

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[1] In the United Kingdom only.
[2] In the United States only.
[3] *Wochenbericht des Instituts für Konjunkturforschung*, 6 : 8, May 24th, 1933.

Stocks of Raw Materials and Finished Goods held by Manufacturers at End of Year. [1]

(National currency, 000,000's.)

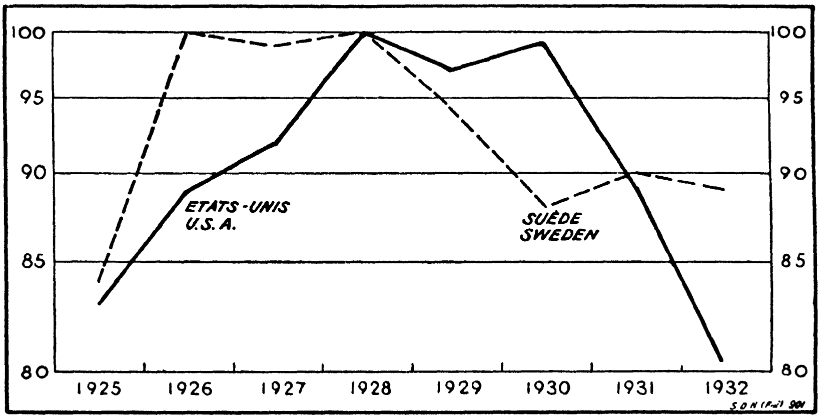
Country	Kind of stocks	Currency	1923	1924	1925	1926	1927	1928	1929	1930	1931
Germany	Joint-stock companies — All stocks	RM.	7,500	9,700	11,100	10,100	11,600	13,000	12,600	11,000	9,000
	Craftwork — All stocks	RM.	1,100	1,400	1,600	1,500	1,700	1,800	1,800	1,500	1,100
Hungary	Joint-stock companies — Raw materials	Pengõ	.	.	111	144	146	160	167	150	128
	Joint-stock companies — Finished goods	Pengõ	.	.	221	263	305	346	352	332	288
	Census of Manufactures	Pengõ	146	240	279	293	369	391	412	428	341
Italy	Joint-stock companies — All stocks	Lira	6,881	8,166	10,272	10,625	10,377	9,190	9,750	9,429	(8,088)
Latvia	Joint-stock companies — All stocks	Lat	.	29	58	65	71	86	105	108	100
Netherlands	Joint-stock companies — All stocks	Florin	82	90	95	99	101	112	159	124	(92)
Norway	Census of Manufactures — All stocks	Krone	.	.	.	.	451	449	486	507	484
Poland	Joint-stock companies — All stocks	Zloty	.	.	.	549	719	972	1,163	...	...
Roumania	Joint-stock companies — Raw materials	Lei	878	1,376	1,515	1,982	1,772	3,947	3,271	1,956	2,063
	Joint-stock companies — Finished goods	Lei	5,217	7,744	8,921	8,907	9,376	9,004	10,399	11,356	8,034
United Kingdom.	Joint-stock companies — (Industrial and Mining) — All stocks	£	575	576	610	594	576	556	572	458	401

[1] Germany: Institut fur Konjunkturforschung, *Sonderheft* 32, page 22. Estimate of total stocks based on official statistics.
Hungary: *Annuaire Statistique*, 1926-1931. *(a)* Stocks held by joint-stock companies; *(b)* stocks held by factories included in the census.
Italy: Societa Italiane per Azione, *Notizie Statistiche*. Stocks held by joint-stock companies.
Latvia: *Annuaire Statistique*. Stocks held by joint-stock companies.
Netherlands: *De Nederlandsche Conjunktuur*, March 1933, page 17. Stocks held by sixty-two companies.
Norway: *Norges Industri*. Stocks held by companies included in the census. Figures are yearly averages.
Poland: *Annuaire Statistique*, 1928-1930. *Information Statistique*, 1933. Fasc. spécial III. Stocks held by Polish joint-stock companies.
Roumania: *Annuaire Statistique*, 1930-1932. *Buletinul Statistical*, 1925-1932. Stocks of joint-stock companies.
United Kingdom: Colin Clark: " The National Income ", Appendix I. Estimate of total stocks based on *Economist's* statistics.

liability companies which published their balance-sheets in the three first quarters of 1932 had a much lower value in 1932 (809,700,000 RM.) than the same companies' commodity stocks in 1931, when they amounted to 1,010,300,000 RM. It would seem, however, that, even in 1931, the value of manufacturers' stocks had begun to decrease. Some part of the decrease was obviously caused by the fall in prices ; but it is almost impossible to say how great a part, because very little is known of the prices of the particular finished goods of which the manufacturers' stocks are composed, or of the weights which have to be attributed to each group of prices. Quantitative indices exist for Sweden and the United States and are shown in the following diagram. It would appear that, in Sweden, stocks at the end of 1932 were about 10 per cent, and, in the United States, 20 per cent less than in 1929.

Stocks of Finished Goods held by Manufacturers in the United States and Sweden, at End of Year.

(Base : 1928 = 100.)



Corroboration for these indications of diminished stocks in the hands of manufacturers may be obtained from the statistics of raw-cotton stocks, which are accurately known. The manufacturers' stocks of raw cotton at the end of January in successive years were :

	Bales (000's)
1929	5,294
1930	4,931
1931	4,586
1932	4,608
1933	4,542

Statistics of retail stocks can now be obtained from either complete or sample studies in three countries. The statistics shown below for Germany represent estimates for the total retail stocks of the whole country ; those for the United Kingdom and the United States are sample estimates for typical important areas.

Retail Stocks in Germany, the United Kingdom and the United States.[1]

	Germany		United Kingdom		United States	
	Total retail trade		Department stores, co-operative societies, shops under multiple or independent management		Department stores	
	Value RM. (000,000,000's)	Quantum change from previous year [2] %	Value at cost : March 1930 = 100	Quantum change from previous year [3] %	Value at cost : yearly average, 1923-25 = 100	Quantum change from previous year [4]
End of year						
1929 . .	8.1	— 2	—	—	94	—
1930 . .	7.2	— 12	—	—	85	+ 3
1931 . .	5.7	— 21	—	—	73	+ 1
1932 . .			—	—	56	— 10
March						
1930 . .			100	—	100	—
1931 . .			88	— 6	87	+ 2
1932 . .			86	—	72	—
1933 . .			80	— 2	55	— 12

There is some evidence, therefore, that stocks in the hands both of manufacturers and of retailers are considerably depleted. This lends more importance to the reduction of visible stocks of raw materials during 1932.

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[1] Germany : Institut für Konjunkturforschung, *Sonderheft* 32.
United Kingdom : Bank of England, *Statistical Summary*, April 1933.
United States : *Survey of Current Business*.

[2] Calculated by the Institut für Konjunkturforschung.

[3] Calculated on the assumption that prices varied as the cost-of-living index.

[4] Calculated on the assumption that prices varied as the mean of the National Industrial Conference Board's retail price indexes of food and clothing.

Chapter IV.

WAGES AND SOCIAL POLICY.

THE SHRINKAGE OF WAGES.

The *Survey* for 1931-32 drew attention to certain aspects of the distributive conflict which underlies much of the controversy concerning the nature of and remedies for the depression.[1] It was pointed out that standards of living had risen appreciably in the post-war period and that there was much greater resistance than previously to any attempt at lowering them. Wage-rates were higher, conditions of labour had improved, hours had been shortened and a much larger part of real income was provided by public services, while in most countries there had been a great extension of social insurance. By the spring of 1932, however, it was becoming evident that national incomes had fallen so heavily that the continuance, not only of existing wage-rates and labour conditions, but also of governmental expenditure upon social purposes was seriously challenged. In the year that has since elapsed, national incomes have fallen to still lower levels and the dilemma described in the *Survey* for 1931-32 has therefore become more acute. The present chapter is devoted to a further consideration of the distributive conflict involved in labour and social policy at the present time.

The facts of declining production and falling prices set out in the preceding chapters leave no room for doubt as to the great extent of the fall in national incomes since 1929. Exact measurement is, of course, not possible, and up-to-date estimates are available for only a few countries ; but no country has gone unscathed, and, in most, the decline both of real and, still more of nominal, income has been very great. No criteria exist, beyond the production estimates already discussed, by which real income may be measured ; but the estimates of the value

[1] Chapter VIII.

of national incomes quoted below show for most countries a greater fall during the depression than the fall in average price-levels. There has been, in addition to changes in the value of the monetary units and to the violent redistributions of income occasioned thereby, a very substantial fall in the real amount of goods and services available for distribution.

The Fall in National Incomes.
(000,000's omitted.)

Country	Unit	1928	1929	1930	1931	1932
Australia [1] . .	£A.	645	556	459	(430)	. . .
Germany [2] . .	RM.	75,400	76,100	70,200	57,100	(46,700)
Italy [3]	Lira	94,400	—	—	(6,000-7,000)	. . .
New Zealand [4].	£NZ.	150	142	117	100	. . .
Norway [5] . . .	Krone	2,153	2,200	2,197	1,994	. . .
Roumania [6] . .	Lei	191,400	184,900	138,900	105,600	(90,000)
United Kingdom [7]	£	3,849	3,996	3,938	3,499	3,199
United States [8]	$	82,400	85,200	70,700	(52,700)	(40,000)
U.S.S.R. [9]. . .	Pre-war Roubles	18,600	—	22,600	31,200	. . .

The magnitude of the fall in national incomes is all the more impressive, since it interrupts a long trend of increase. For decades before the war there was in almost every country a strong upward tendency, interrupted but slightly during the long period of rising prices, when both the duration and the violence of cyclical depressions was minimised. This progress was resumed by increasing production as well as rising values after the first post-war crisis checked the great expansion of the war period. The world, therefore, was habituated to steadily increasing national incomes and rising standards of living.

[1] Committee appointed by the Government of the Commonwealth of Australia, " Preliminary Survey of the Economic Problem ", Report April 1932 (the figures refer to the years 1928-29 to 1931-32).

[2] Statistisches Reichsamt, " Das deutsche Volkseinkommen ", Berlin, 1932. Institut für Konjunkturforschung, *Vierteljahrsheft*, February 1933.

[3] Institut International de Statistique. *Bull.* XXV, Livraison 3. Professor Gini's estimate, page 365. " The Association of Italian Corporations Business and Financial Report ", June 1st, 1932.

[4] Canterbury Chamber of Commerce, *Bulletin*, April 1933 (figures refer to years 1928-29 to 1931-32).

[5] " Statisticke Meddelelser ".

[6] *Buletin Trimestrial al Institut Romanesc de Conjunctura*, 1933, No. 1-2.

[7] Clark : " The National Income ", London, 1932. 1932, *The Economic Journal*, June 1933.

[8] *National Industrial Conference Board Bulletin*, February 20th, 1933.

[9] *Sowjetwirtschaft und Aussenhandel*, No. 5, 1932.

The proportion of national incomes paid to wage-earners was of less importance than the increase in the total amount available for distribution. Since the depression, the share of national incomes going to the wage-earning and salaried classes appears to have been increasing in many countries; but the total has been so greatly reduced that the absolute amounts paid to wage-earners have fallen very heavily. Thus, in the United States, wages and salaries, which in 1929 had absorbed 62.5 per cent of the national income, by 1932 absorbed 70.5 per cent; but the actual amounts paid had fallen from $53,300 million to $28,200 million.[1] The table printed below shows the proportion of national incomes devoted to the payment of wages and salaries.

The Percentage of National Income Paid as Wages and Salaries.[2]

Year	Belgium		France (post-war territory)	Germany (post-war territory)	United Kingdom [3]		United States (Continent)	
	Wages	Wages and salaries	Wages and salaries	Wages and salaries	Wages	Wages and salaries	Wages	Wages and salaries
1913 . .	34.0	—	43.6	45.3	42.7[4]	54.5[4]	36.4	51.8
1924 . .	38.0	—	46.4	—	41.5	63.3	37.7	56.1
1925 . .	—	—	44.6	56.3	—	—	37.6	55.9
1926 . .	—	—	43.6	55.5	39.2	63.0	*38.1	56.8
1927 . .	41.5	55.3	44.1	54.9	40.8	63.5	*37.3	56.8
1928 . .	—	—	44.4	56.5	40.9	64.2	*36.0	56.0
1929 . .	—	—	—	56.6	39.8	62.4	...	—
1930 . .	40.6	52.6	—	*56.4	38.9	61.4	...	...
1931 . .	—	—	—	*57.9	41.4	65.7	...	...
1932 . .	...	...	...	...	...	*72.1	...	...

[1] *National Industrial Conference Board Bulletin*, February 20th, 1933 ; *Bradstreet's Weekly*, November 12th, 1932. These figures are based on the National Industrial Conference Board's estimate of national income and should not be compared with the figures given in the table above, which are based on King's estimates.

[2] Sources:

Belgium, F. BAUDHUIN : quoted in *Bulletin de Statistique et de Législation comparée*, November 1927, pages 767-768 ; and F. BAUDHUIN : " Le revenu national en 1930 ", in *Bulletin d'Information et de Documentation de la Banque nationale de Belgique*, 5th year, Vol. I, pages 373-377.

France, M. HUBER : " La population de la France pendant la guerre, avec un appendice sur les revenus avant et après la guerre ", pages 942 and 957.

Germany, " Statistisches Jahrbuch für das Deutsche Reich ", 1932, page 526.

United Kingdom, C. CLARK : " The National Income, 1924-1931 ", pages 72 and 140. 1932, *The Economic Journal*, June 1933.

United States, W. I. KING : " The National Income and its Purchasing Power ", page 80.

[3] Based on home income only.

[4] Figure for 1911.

* Provisional.

The situation varies a good deal from country to country, and in the absence of more complete and up-to-date statistics it is not possible to state a definite trend. The position is clearest in the United Kingdom, where wage-rates have been strongly maintained. Statistics of industrial production for a number of smaller countries suggest that the tendency has been very strong for the total wages paid to become a smaller percentage of the national income. In the majority of cases, the percentage which wage and salary payments represent of the net value of industrial production has fallen substantially. This appears to indicate that overhead capital costs have been more difficult to reduce than wages.

Percentage of Wages (W) and Wages and Salaries (WS) to the Net Value of Industrial Production. [1]

Year	Australia	Canada		New Zealand		Finland	Hungary		Latvia	Norway	
	(WS)	(WS)	(W)	(WS)		(W)	(WS)	(W)	(W)	(WS)	(W)
1926 (1926-27)	55.8	43.8	33.6	52.0	.	36.8	32.5	24.6	.	.	.
1927 (1927-28)	54.6	42.4	32.5	52.1	.	35.5	35.2	28.1	.	49.3	38.5
1928 (1928-29)	54.3	41.5	31.9	51.3	.	36.2	35.8	28.4	38.8	48.0	38.1
1929 (1929-30)	54.2	40.7	31.3	51.4	50.4	36.7	36.0	28.4	40.8	47.5	38.2
1930 (1930-31)	52.8	41.8	31.3	52.0	50.8	36.2	35.3	26.8	41.9	49.0	39.1
1931 (1931-32)	50.4	42.4	29.7	.	49.7	33.2	36.4	27.9	44.5	49.2	37.1
1932 (1932-33)											

While the fall in aggregate wage payments illustrated below is a most impressive and important fact, the maintenance of nominal wage-rates at relatively high levels demonstrates the

[1] The figures are for calendar years, except for Australia (years ended June) and New Zealand (years ended March). Salaries do not include working proprietors' income, except for New Zealand. Net output is computed by deducting from the gross value of output the cost of materials and fuel and electricity used. In the case of Canada and New Zealand, only the cost of material used, but not of fuel, has been deducted; and, in the case of Finland, the cost of electricity used has not been deducted. The figures refer, in general, to manufacturing industries, but include mining, quarrying, building and construction of works, and gas, etc. The first column for New Zealand includes tramways, the second not.

Sources:

Australia: " Official Year-Book, 1931-32 " ; " Quarterly Summary of Australian Statistics ", March 1933. — *Canada:* " Official Year-Book, 1932 " ; " Advance Report on the Manufacturing Industries 1931 ". — *New Zealand:* " Official Year-Book, 1933 ", " Monthly Abstracts of Statistics ", January 1933. — *Finland:* " Teallisuustilastoa, Industristatistik 1931 ", Helsingfors, 1933. — *Hungary:* " Annuaire Statistique 1926-30 ", " Revue Hongroise de Statistique ", Septembre 1932, " Supplément ", Octobre 1932. — *Latvia:* " Annuaire Statistique 1931 ". — *Norway:* " Norges Industrie 1931 ", Oslo, 1933.

importance attached by the wage-earners to the maintenance of hardly won nominal standards. It is significant that, despite the overwhelming nature of the depression and its costs, money rates of wages in most countries have not fallen as fast as the cost of living. In the table and diagram which follow, quarterly indices of nominal wage-rates, or in certain cases, of hourly earnings are given for the three depression years 1930-1932.

It is clear that, except in the case of agricultural wages in the United States, the indices may be divided into two groups, the first of countries (Czechoslovakia, Denmark, France, the United Kingdom) where nominal wage-rates have been sustained around the 1929 levels, and the second of those, including both agricultural and industrial countries, where rates have been cut from 15 to 20 per cent. The annual figures for many other countries, giving separate indices for different major occupations, indicate that the number of instances in which wage-rates have been maintained or have fallen slowly is considerably greater than those where deflation policies have forced drastic reductions.[1] It is not difficult to pick out particular industries in different countries in which the rates have been reduced much more than the average ; but when the violence and persistence of the depression is considered, it is remarkable to find how generally the rates have been maintained.

Even where cuts have been general, they have not usually been as great as the recorded fall in the cost of living. It is true that the index-numbers which measure average movements of the retail prices of food, clothing, heat and light, rent, and in some cases even miscellaneous expenses, may not exactly fit the circumstances of particular groups or even the majority of wage-earners in a period of rapid change. But index-numbers of real wages, compiled by correcting the nominal wage-rates given above for changes in the cost of living, show such a general tendency to rise that there can be little doubt that most wage-earners in constant full-time employment at standard rates are, except for the loss of supplementary earnings such as overtime, in a much better position than in 1929.

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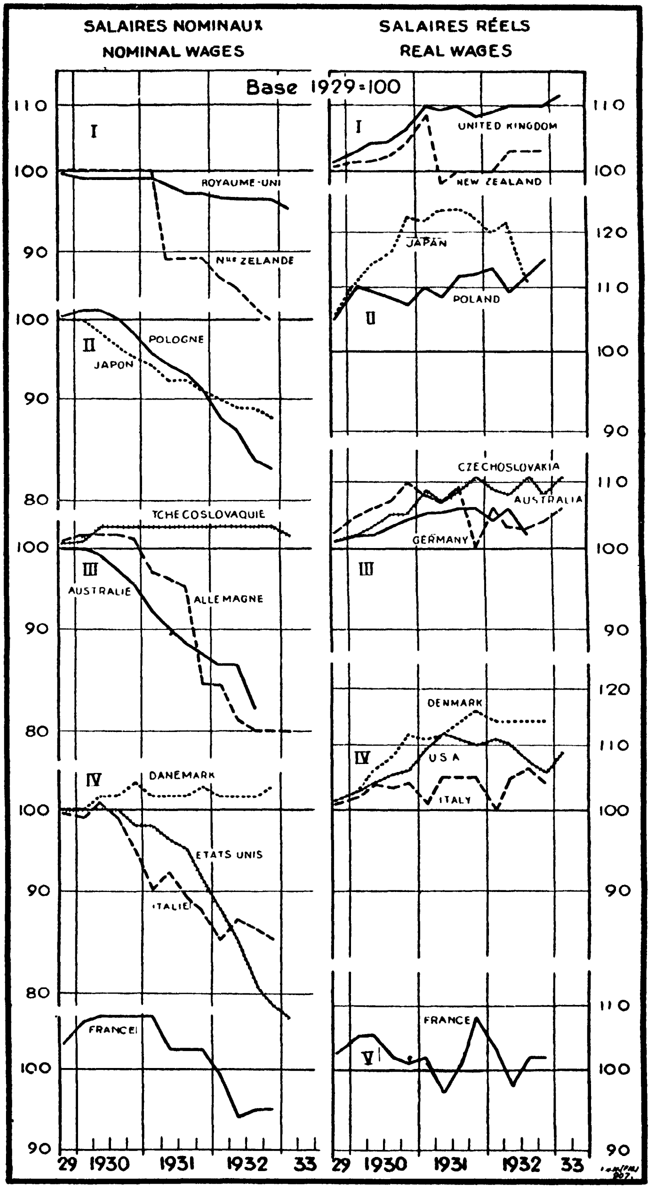
[1] Cf. most recent tables in *International Labour Review*.

Index-Numbers of Nominal Wages in Various Countries.
(Base : 1929 = 100.)

Country	1930				1931				1932				1933	
	III	VI	IX	XII	III	VI	IX	XII	III	VI	IX	XII	III	VI
Australia [1] . .	100	99	97	95	92	90	88	87	86	86	82	81	...	...
Czechoslovakia [2].	101	103	103	103	103	103	103	103	103	103	103	103	102	...
Denmark [3] . . .	100	102	102	104	102	102	102	103	102	102	102	103	...	...
France [4]	107	108	108	108	108	103	103	103	99	94	95	95	...	...
Germany [5] . . .	102	102	102	101	97	96	95	84	84	81	80	80	80	...
Italy [6]	99	101	99	94	90	92	89	88	85	87	86	85	*85	...
Japan [7]	100	98	96	95	94	92	92	91	90	89	89	88	*88	...
New Zealand [8] .	100	100	100	100	100	89	89	89	87	86	84	83	83	...
Poland [9]	101	101	100	98	95	94	93	91	88	87	84	83	*81	...
United Kingdom [10]. .	99	99	99	99	99	98	97	97	96	96	96	96	95	...
U.S.A. (Industry) [11] .	100	100	100	98	98	96	95	91	88	85	81	79	78	...
U.S.A. (Agriculture) [12]	94	92	88	77	74	71	66	58	56	51	49	44	43	...

[1] Men : hourly rates. Mines, industries, public service, commerce, etc. ; for end of month (Commonwealth Bureau of Statistics).
[2] Men and women : hourly minimum rates. Industries, average of month (Statistical Office of the Czechoslovak Republic).
[3] Men and women : hourly earnings. Industries, public service, commerce, etc. ; average for the quarter ending with the given month (Department of Statistics).
[4] Men : daily earnings. Mines ; average for the quarter ending with the given month (Statistique générale de la France).
[5] Men and women : hourly rates. Mines, industries, public services ; first of following month (Statistisches Reichsamt).
[6] Men and women : hourly earnings. Mines, industries, public services, etc. ; average of the month (Central Institute of Statistics).
[7] Men and women : daily rates. Industries ; end of the month (Bank of Japan).
[8] Men : weekly minimum rates. Agriculture, mines, industries, public services, commerce, etc. ; average for the quarter ending with the given month (Census and Statistics Office).
[9] Men and women : daily rates. Mines, industries ; end of the month (Central Office of Statistics).
[10] Men and women : weekly rates. Agriculture, mines, industries, public services ; average for the quarter ending with the given month (Ministry of Labour).
[11] Men and women : hourly earnings. Various industries ; first week of the given month (National Industrial Conference Board).
[12] Men : daily rates. Agriculture ; first of the following month (United States Department of Agriculture).
* February 1933.

Index-Numbers of Nominal and Real Wages 1930-1933.
(Base : 1929 = 100.)



I: Weekly rates. II: Daily rates. III: Hourly rates. IV: Hourly earnings. V: Daily earnings.

Index-Numbers of Real Wages in Various Countries.[1]
(Base : 1929 = 100.)

Country	1930				1931				1932				1933
	III	VI	IX	XII	III	VI	IX	XII	III	VI	IX	XII	III
Australia . . .	102	102	103	104	105	105	106	106	104	106	102	102	...
Czechoslovakia .	102	103	105	105	109	107	109	111	109	108	111	108	111
Denmark . . .	103	106	108	112	111	112	114	116	114	114	114	114	...
France	105	105	102	101	102	97	101	108	103	98	102	102	...
Germany . . .	105	106	107	110	108	107	109	100	106	103	103	104	106
Italy	102	104	103	104	101	105	105	105	100	105	106	104	*101
Japan	111	114	116	123	122	124	124	123	120	122	117	111	*109
New Zealand .	101	101	102	104	108	98	100	100	100	103	103	103	104
Poland	110	109	108	107	110	108	112	112	113	109	112	115	*113
United Kingdom	103	104	104	106	110	109	110	108	109	110	110	110	112
United States :													
Industry . .	103	104	105	106	110	112	111	110	111	110	107	106	109
Agriculture .	96	95	92	83	83	83	77	70	70	65	64	59	61

The fortunate position of those workers who remain in steady employment, while important from the point of view of maintaining standards of remuneration which may become general again when the depression passes, is overshadowed by the heavy fall of earnings. There has been a widespread reduction of overtime and a considerable spreading of work by various methods of short-time or irregular employment in addition to a great increase in total unemployment. Unemployment demands special attention in a separate section ; but examples may be given here of the losses occasioned to the wage-earners by diminished overtime earnings and the greater irregularity of employment.

The report published by the International Labour Office as a preliminary to the Preparatory Conference on Hours of Work and Unemployment held at Geneva in January 1933 summarises the statistical information available concerning both these problems.[2] Practical difficulties limit the possibilities of eliminating overtime. A sudden emergency, while not adequate to warrant the engagement of fresh workers, may demand extra hours from the existing staff. The average amount of overtime per worker employed on overtime has somewhat decreased ; but the number of workers so employed has been much more reduced. Thus, in Czechoslovakia in 1929, over 287,000 employees worked an average of 57 overtime hours in the year, while in 1931 only 90,000 worked an average of 47

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[1] The index-numbers of nominal wage-rates used in the preceding table corrected by the official indices of the cost of living.
[2] International Labour Office, "Hours of Work and Unemployment", Geneva, 1933.
* February 1933.

overtime hours. In the Netherlands, the number of industries receiving overtime permits increased continuously from 1923 to 1929, but fell considerably in 1930 and 1931. In Belgium in 1929, over 49,000 workers had a total of over 4 million overtime hours, but in the twelve months ending September 30th, 1932, these figures fell to less than 6,000 workers with 391,000 hours of overtime.[1]

There was also a very considerable extension of short time and irregular work, reflected in the statistics of the partially or intermittently unemployed in many countries.[2] Special enquiries made by the International Labour Office at various dates in 1932 showed large percentages of workers affected by short time in almost every country, and in some industries in all countries, for which statistics were available. Thus the American Federation of Labour estimates that, in addition to an unemployment percentage of 32 in September 1932, a further 32 per cent of those employed were working short time. The short-time percentage was as high as 50 in some trades. In Italy in August 1932, the percentage of workers employed for less than a full working week was almost 30 for all industries and was as high as 61.8 in hatmaking. In the United Kingdom in September 1932, short time affected percentages of the workers employed ranging from 13 in carpet-making to 46 in the boot and shoe industry. In Germany during 1931, similar high percentages were recorded for many industries, and in June 1932 a sample enquiry revealed 33.7 per cent of the salaried workers employed as on short time also.[3] The position in France is clear from the following table :

Hours of Work in French Factories and Mines.[4]

Date	Distribution of occupied workers (per thousand) according to the number of hours worked weekly			
	Forty-eight hours or more	More than forty and less than forty-eight hours	Forty hours	Less than forty hours
1930 : June . .	969	24	5	2
December	936	45	11	8
1931 : June . .	697	175	69	59
December	545	217	91	147
1932 : June . .	489	178	105	228
December	615	188	84	113

[1] International Labour Office, " Hours of Work and Unemployment ", pages 34-37 and 187, Geneva, 1933.

[2] For the most recent estimates of intermittent unemployment, see current issues of the League of Nations *Monthly Bulletin of Statistics.*

[3] " Hours of Work and Unemployment ", *op. cit.*, pages 26-32 and 177-186.

[4] Which are subject to factory inspection and occupy more than 100 persons. *Bulletin de la Statistique générale de la France,* January-March 1933.

Historical data are not available to determine the extent to which short-time practices have grown in other countries during the depression, but the statistics showing the rapid growth of partial unemployment undoubtedly reflect the influence of such an increase. The table below gives such statistics as bearing upon, if not exactly measuring, this problem.

Partial or Intermittent Unemployment Percentages in Various Countries, 1929-1932.[1]

Country	1929	1930	1931	1932
Germany	7.5	13.4	20.0	22.6
Belgium	3.0	7.9	16.9	20.7
United Kingdom . .	2.2	4.3	4.6	4.5
Switzerland	1.7	7.2	12.1	12.2

In view of these statistics and of the facts relating to unemployment discussed in the next section, it is not surprising to find that the aggregate earnings of the wage-earners have decreased very greatly in most of the countries for which statistics are available.

In Germany, for example, between 1929 and 1932, pay-rolls dropped from RM. 44,500 million to RM. 25,700 million.[2] In the United States in the same period the drop was even greater, amounting to 60 per cent. In Italy, the totals fell from 6,040 million lire in 1929 to 4,100 million in 1932. Real wages obviously fell rather less ; but it is estimated that, even allowing for the fall in the cost of living, " the purchasing power of the wage-earning population shrank by 48 per cent in the United States, by 20 per cent in Germany, and by 19 per cent in Italy between 1929 and 1932 ".[3] In the United Kingdom, the fall in money-wages was much less than the figures cited above. It is estimated that in that country " the shrinkage in money-wages amounted to 7 per cent between 1929 and 1931 and probably to about 10 per cent between 1929 and 1932" [3].. The cost of living at the end of 1932 was about 13 per cent lower than the monthly average in 1929, so that the aggregate of real wages would appear to have increased in the United Kingdom.

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[1] League of Nations *Monthly Bulletin of Statistics*.

[2] " Wochenbericht des Instituts für Konjunkturforschung ", March 8th, 1933.

[3] Report of the Director of the International Labour Office, June 1933.

The Relief of Unemployment.

During the year 1932, with few and partial exceptions, the volume of unemployment continued to increase throughout the world. The Director of the International Labour Office, in the spring of 1932, estimated the number of unemployed as 20 to 25 millions. His successor's estimate of the number a year later, in early 1933, was 30 millions. The general tendency to increase is illustrated by the following table :

National Unemployment Statistics at the End of March 1929-1933.[1]
(000's)

Country	1929	1930	1931	1932	1933
Australia	39	63	114	120	109
Austria	225	239	304	417	456
Belgium [2]	28	42	207	350	383
Canada	12	23	32	77	80
Czechoslovakia	50	88	340	634	878
Danzig	18	20	27	36	38
Denmark	66	49	70	145	166
Estonia	4	4	3	8	15
Finland	3	10	11	18	19
France	9	14	72	347	356
Germany	2,484	3,041	4,744	6,034	5,599
Hungary	14	43	55	71	69
Irish Free State [4]	19	23	25	31	83
Italy [2]	309	413	735	1,085	1,111
Japan	—	352	397	474	—
Latvia	9	6	9	23	13
Netherlands	—	—	—	253	342
New Zealand	3	3	38	45	51
Norway	24	23	29	38	42
Poland	177	289	373	360	280
Roumania	10	13	48	55	—
Saar	9	9	18	45	42
Sweden	44	42	73	99	121
Switzerland [2]	9	21	61	103	113
United Kingdom [2]	1,204	1,694	2,666	2,660	2,821
United States [3]	—	2,964	6,403	10,477	13,359
Yugoslavia	12	10	12	23	23

These statistics, compiled by different methods, represent somewhat different facts in the various countries and are comparable only as showing the trend in each country and not inter-

[1] League of Nations *Monthly Bulletin of Statistics.*
[2] Partial and intermittent unemployment included.
[3] Figures for United States, 1930-1932 ; American Federation of Labour, see *Weltwirtschaftliches Archiv.*, April 1933.
[4] New series from June 1932.

nationally. The general trend of increase is sufficiently obvious to need little comment. In only eight countries — Australia, Canada, Germany, Hungary, Latvia, Poland, Saar and Yugoslavia — was there some decrease in the number of unemployed in March 1933 as compared with March 1932.

In passing, attention may be drawn to one significant effect of unemployment, the repatriation of imported labourers, which, while of very great importance for the countries immediately concerned, is apt to escape notice in general surveys of the situation. This phenomenon is of importance, not only in Europe, but also in such regions as Malaya, where immigrants provide a great deal of the transient labour used on plantations. The extent to which repatriation has proceeded may be illustrated by the following table showing the migration of foreign workers into and out of France.

Migration of Foreign Workers into and out of France.[1]

	1929	1930	1931	1932
Number entered . .	179,329	187,407	102,267	53,208
Number left	38,870	54,975	92,916	108,513

The major causes of this vast breakdown of organised employment are obviously those which have contributed to the economic and financial depression in general. In addition to the well-recognised monetary, financial and trading factors which have been repeatedly set forth in expert analyses of the circumstances, there are far-reaching structural changes proceeding in industry and trade.[2] These structural changes are geographical, affecting the localisation of important industries; technical, involving the transformation of productive methods; and social, arising from changing habits of consumption. It is clear that the world is in the midst of a period of rapid industrial change which, in addition to more temporary causes of monetary, financial and commercial paralysis, is gravely affecting the welfare of large masses of workers. The more temporary causes, with their mixed political, economic and financial background, are more appropriately discussed in later chapters of this *Survey*, and

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[1] *Bulletin de la Statistique générale.*

[2] Cf. " Report of the Gold Delegation of the Financial Committee ", Geneva, 1932; " Draft Annotated Agenda for the Monetary and Economic Conference ", Geneva, January 1933; also " World Production and Prices, 1925-1932 ", Geneva, August 1933.

some of the outstanding structural changes were dealt with in the preceding volume. [1]

Nearly all discussions of unemployment in recent months, however, have directed attention to various aspects of the effects of technical progress upon the demand for labour, particularly in the heavy industries. The statistics of unemployment by industries reveal the pressure that has been exerted by the depression upon the export industries of every country and particularly upon those in which technical progress is proceeding most rapidly. It is impossible to separate the influence of commercial restrictions and similar factors from the effects of technical and geographical changes in industrial structure, and it so happens that, in many important cases, both sets of influences are concentrated upon much the same industries. The summary table on the next page is reproduced from national statistics, which are not compiled upon strictly comparable bases; but there is sufficient evidence therein of a concentration of unemployment, except in the building trades, upon export rather than domestic, and upon the production rather than the consumption, industries.

The particular circumstances of certain industries need to be considered in each country and, in particular, some industries which in one country are largely dependent upon the export market, in other countries are almost wholly domestic.

The recent preoccupation with " the hard core of unemployment " caused by far-reaching structural changes of industry and commerce as distinct from the cyclical aggravation resulting from the crisis, while new to the present generation, has definite historical parallels in other periods of accelerated economic change, such as those which followed the rapid introduction of machinery after the Napoleonic wars and the advance of the chemical industries in the seventies. Such parallels, while throwing light upon the problem, do not alleviate its hardships to the workers. In the circumstances of free mobility and competition assumed by classical economic theory, it is easy to demonstrate that more efficient production in itself creates fresh demands for labour and so absorbs the unemployment it creates. The fresh demands for labour created by the manufacture of synthetic nitrates in Europe is, however, of little immediate help to the labourers thrown out of employment in Chile, and, when the pace of industrial change is as rapid and sustained as it has been in recent years, there arise real and intractable problems of persistent unemployment that are hard to solve

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[1] " World Economic Survey 1931-32 ", Chapter I. See also report of the Director of the International Labour Office, June 1933.

even within national boundaries and still harder internationally. " Labour ", in Adam Smith's phrase, " is of all commodities the most difficult to be transported ".

Statistics of Unemployment by Groups of Industry. [1]
(Percentage of Unemployed Workers at the End of March in Successive Years.)

Country	Year	Building	Engineering, etc.	Mining	Textiles	Printing	Food
Australia	1930	17.5	16.7	8.7	.	3.8	9.3
	1931	30.4	27.7	32.4	.	12.6	17.4
	1932	37.9	31.1	33.5	.	15.4	17.1
	1933	...	... [3]	...	.	...	...
Belgium	1930	2.6	1.2	0.1	1.7	1.1	0.8
	1931	25.1	10.6	0.5	7.7	4.0	4.1
	1932	30.7	18.6	4.0	20.5	11.2	7.6
	1933	27.9	21.6 [3]	4.5	17.6	12.8	9.7
Canada	1930	30.5	16.3	11.8	2.2	3.7	.
	1931	45.7	16.1	12.4	4.4	6.8	.
	1932	62.3	...	9.9	15.8	12.1	.
	1933	71.0	70.1	17.5	19.8	15.9	.
Germany [2]	1930	53.1	15.9	4.5	12.9	13.3	14.1
	1931	73.9	29.3	13.4	21.6	22.2	24.1
	1932	88.7	43.6	18.8	30.7	35.0	31.9
	1933	87.5	50.0 [3]	19.1	31.1	37.3	27.9
Netherlands . . .	1930	13.7	6.2	0.4	9.2	2.8	5.3
	1931	29.9	23.7	0.4	21.7	4.5	12.6
	1932	41.6	40.6	36.6	27.3	10.9	17.5
	1933	... [4]	...	...	...	...	...
Sweden	1930	27.7	7.6	13.9	3.7	4.9	10.4
	1931	40.8	17.0	21.5	3.8	5.0	11.7
	1932	47.6	26.0	39.6	5.1	8.9	14.8
	1933	55.3	27.3	37.4	9.7	11.5	17.9
United Kingdom .	1930	16.0	13.7	14.3	25.5	6.0	10.3
	1931	22.5	26.6	27.4	36.5	10.1	13.2
	1932	29.0	27.2	26.9	23.4	11.2	12.5
	1933	27.2	28.6	31.2	26.0	11.1	13.4

There arises the dilemma, therefore, apart altogether from the solution of the present financial crisis, of mitigating the social effects of structural industrial change without placing undue obstacles in the way of the more efficient and economical production which such change may be expected to bring. As

[1] League of Nations *Statistical Year-Book*.
[2] Wholly unemployed only.
[3] Metals.
[4] Carpenters.

was pointed out in the last *Survey*, [1] industrial progress wins its way even during depressions, and, if higher standards of living are to be won by increased technical efficiency, industrial specialisation and rationalisation must be allowed to re-arrange both the localisation and the technical processes of manufacture. Merely obstructive measures of protection designed to protect existing arrangements of industry are both costly and in the long run probably futile. The more difficult, but ultimately more effective, line of attack upon the problem lies in constructive methods of promoting industrial mobility, fundamentally by revising educational methods so as to produce a more generalised, adaptable type of skill to meet the new conditions of labour.

In the meantime, however, there are heavy costs to be met. Public opinion no longer tolerates the harsh injustices which such periods of change in the past worked upon the unfortunate labourers whose skill suddenly became unmarketable. In every country, even in the strongholds of individualism, the necessity of relief and the advisability of such preventive measures as unemployment insurance, special training and assistance in gaining re-employment are recognised. The cost of such measures in recent years has become very great.

Schemes of unemployment insurance have proved inadequate to carry the whole burden, and in many cases their actuarial bases have been shaken if not destroyed. The number of workers covered by compulsory insurance schemes has been estimated by the International Labour Office as over 38 millions, with a further three and a half millions covered by voluntary schemes. [2] The variety of these schemes in the seventeen countries in which they are in force is too great to be summarised briefly ; but, in general, the funds are derived from contributory systems in which the State subsidises the contributions of workers and employers. The increased payments caused by the depression, together with shrunken receipts, have necessitated an increase in State subsidies or advances in most compulsory insurance schemes. Some budgetary relief has been gained in certain countries by cutting down the rates of benefit and tightening the administrative regulations ; but such relief has not been effective in making the schemes self-supporting and a great part of the economy gained is balanced by increased relief expenditure.

Despite the strain thrown on the funds and the heavy burden of supplementary relief, the principle, not only of unemployment, but of other forms of social insurance is stoutly defended and

[1] Pages 105-108.

[2] International Labour Office, " Unemployment Insurance and Various Forms of Relief for the Unemployed ", Geneva, 1933.

seems to have won ground — for example, in the United States. " The State of Wisconsin has already adopted legislation for this purpose, and it seems certain that more comprehensive legislation will be initiated in the near future. " [1]

In addition to the payments from insurance funds, however, the costs of relieving unemployment have mounted very rapidly. " In the United Kingdom, expenditure out of the unemployment fund was £51 million during the year 1924-25, of which 28.3 per cent was contributed by the State. In 1931-32, the total had risen to £120 million, of which 72 per cent was contributed by the State, these sums being in addition to the heavy burden carried by the local authorities. In Germany, RM. 1,071 million were spent on unemployment relief in 1928 (exclusive of local relief), of which only a small proportion was borne by the Federal and State Governments. [2] In 1931, the figure had risen to 2,338 millions, of which 38 per cent was borne by the Federal and State Governments. In France, 652.5 million French francs were distributed by the public unemployment funds in the period April 1st, 1931, to August 1st, 1932, of which 400 million francs were met by the State, the remainder being borne by local authorities. In the Netherlands, unemployment expenditure, which was 5.2 million florins in 1924, had risen to 24.9 million florins in 1931, of which 32 per cent was borne by the Government. [3] In Switzerland, 1.6 million francs were spent in 1924, and 37.9 millions in 1931, of which 84 per cent was borne by the public authorities, including the communes. With regard to the United States, no accurate figures are available, but some idea of the amount expended on relief is indicated by an estimate made by the Children's Bureau of the United States Department of Labour, [4] from which it appears that over 50 million dollars were spent during the single month of September 1932 in the areas for which statistics are available. This is not, however, by any means a complete survey. " [5]

As a further illustration of the immense scale upon which relief expenditure has been necessary in the United States, reference may be made to the distribution of commodity stocks.

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[1] Report of the Director of the International Labour Office, June 1933. Cf. also C. M. Bookman, " The Social Consequences and Treatment of Unemployment ", Presidential Address to the National Conference of Social Work, Philadelphia, U.S.A., published by the University of Chicago Press, 1932.

[2] About 20 per cent.

[3] In addition to the 32 per cent chargeable to the communes.

[4] *Monthly Relief Bulletin*, Vol. II, No. 3, November 1932.

[5] Report of the Director of the International Labour Office, June 1933. The Chairman of the Committee on Banking and Currency of the United States House of Representatives has stated that the total relief expenditure during 1932 by Federal State and local agencies reached $1,000 million. (" Unemployment Insurance and Various Forms of Relief for the Unemployed ", Supplementary Report, page 14.)

During 1932, a total of 829,000 bales (414½ million pounds) of cotton and 85,000,000 bushels of wheat were released from Government stocks for distribution by the Red Cross. The distribution was carried through on a barter basis, millers and manufacturers handling the processing at cost and receiving payment in kind. [1]

To such direct relief payments must be added the increasing sums spent in a number of countries upon public works designed primarily to relieve unemployment and the many varieties of labour service, land settlement and small allotment schemes that have been carried out. In New Zealand, the Government has furnished aid to gold prospectors ; in the United States, one of the first acts of the Roosevelt administration was the initiation of large-scale afforestation projects ; in Germany, besides the tax-remission scheme launched by the von Papen Government, more than 500,000 persons have benefited from small-holding and allotment schemes.

It is difficult to judge the effectiveness of such relief. Not only is the increasing cost a heavy drain upon the budgets of national and local Governments (and also upon private charity), eating up resources that might under happier circumstances be available for the extension of more efficient production, but it seems clear that even such vast expenditures are not really adequate to relieve the distress occasioned by lack of work. In the presidential address to the National Conference of Social Work, previously quoted, it was estimated that the total amount of relief expenditure in the United States in 1931 was about 450 million dollars but, Mr. Bookman added,

> " Huge as this sum of 450 millions may seem when viewed by itself, or as compared with relief during prosperous periods, it is only about 2 per cent of the 22,000 millions estimated loss to all wage and salaried earners in 1931 and less than 5 per cent of the loss suffered by wage-earners alone engaged in the leading industrial occupations. " [2]

While it may be conceded that the disorganisation of industry and agriculture has been greater, and the facilities for relief have been less adequate, in the United States than in many other countries, there is an alarming volume of evidence concerning the growing social costs of the depression. A survey of mortality and morbidity statistics made by the Health Section of the League of Nations [3] appeared to indicate that, while there was

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[1] " Mass Relief in the U.S.A. ", London *Times*, April 17th, 1933.
[2] " National Conference on Social Work ", *op. cit.*, page 7.
[3] " The Economic Depression and Public Health " (document A.11(1).1932).

no noticeable increase of mortality rates to the end of 1931, there were not wanting indications even then that the general lowering of living standards, and underfeeding in particular, were beginning " to constitute a danger to public health ". That such indications had not appeared sooner and in more startling form is a striking tribute to the greater efficacy of relief measures in the present crisis.

During 1932, the situation has become noticeably worse. Reports of medical health officers and school authorities, conferences of social workers, the publications of relief agencies, and official investigations of conditions among the unemployed bear witness to increasing sickness, stunted growth, and nervous strain, particularly among children and adolescents.[1] It is evident that the prolongation of unemployment and the general lowering of living standards have reached the point in some countries where they are not only sapping the vocational and moral efficiency, but are seriously undermining the physical stamina of millions of children and young people. The renewed efforts of public and private agencies to foster substitute occupations and healthy recreation, as well as to provide at least a minimum standard of food and clothing, admirable and deserving of all praise as they are, remain a poor substitute for the healthy exercise of individual initiative and responsibility in normal occupations.

The Movement towards a Reduction of Hours of Work.

The prevalence and persistence of unemployment has naturally directed attention to a great variety of proposals, both of a palliative and of a remedial nature, aimed, not only at mitigating distress among the unemployed, but at finding a solution of unemployment. Until recent months the majority of such proposals were concentrated upon efforts in various ways to increase the demand for labour. Thus, most of the expert proposals put forward in preparation for the Monetary and Economic Conference have been designed to effect a restoration of trade and of monetary stability in order to revive production and exchange. In the same way, the schemes put forward in many quarters for public works expenditure, accompanied usually by plans for credit expansion, and the palliative schemes such as land allotments briefly referred to in the preceding section,

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[1] Cf., *e.g.*, " National Conference of Social Work ", *op. cit.*, pages 126-135, 309-314. " Children, Young People and Unemployment ". Save the Children International Union, Geneva, 1933 ; Part I — Germany, U.S.A., Belgium, Switzerland ; Part II — Austria, Great Britain, Poland, etc.

have started from the idea of increasing the demand for labour. It has already been argued, however, and it is now generally admitted, that, even when the present crisis is surmounted, there will in all probability remain " a hard core of unemployment ", if only because of the displacement of labour by reason of the rapid improvement of industrial technique. In these circumstances, it is not surprising to find that a strong movement has developed in the direction of controlling the supply of labour, while at the same time stimulating demand for it.

This movement takes many forms, such as the elimination of married women from certain forms of employment, the objections raised to double employment, measures to raise the school-leaving age, and lowering the age of retirement, that amount in the aggregate to a considerable restriction of the labour supply, but are impossible to measure statistically. For the most part they are the result of private initiative or social pressure exercised in specific industries or localities.

The movement towards a reduction of working hours, which is the most important manifestation of the attack on unemployment from the side of labour supply, has developed considerable strength in recent months both by actual application in specific cases and by public discussion of the possibilities of international action. Historically, it is a continuation of the tendency towards a limitation of working hours which has been a characteristic accompaniment of the introduction of machine methods in industry. Ever since the first factory Acts were passed in England regulating the employment of children and young persons, there has been a continuous extension of the principle. Not only the age at which employment is permissible, but the number of working hours in the day, the times during which work is permitted, rest-periods and holidays, have been prescribed for adults as well as children, as much by public opinion and, in recent years, by business initiative, as by actual legislation. The persistent tendency has been to restrict the supply of labour by regulations and practices which limit the duration of effort on the part of the individual. Forced into operation at first by the humanitarian pressure of public opinion, often upon reluctant employers, such regulations have, on the whole, been later justified upon purely economic grounds. Increased efficiency of labour, improved management rendered necessary by the restrictions placed upon labour supply, together with an increased use of capital equipment and a stimulation of labour-saving inventions, have accompanied, if they have not been wholly caused by, the limitation of working hours and rising standards of living.

The more recent acceleration of the industrial revolution, and particularly the rapid development of mass-production

methods by the utilisation of automatic machines, together with the improved management which has come to be known as rationalisation, have brought possibilities of further reductions in the working day and the working week. It is significant that, in the post-war period, the initiative in reduction has come not so much from the workers, or from public opinion, as from those employers who have gone furthest in introducing the new machine methods of production. The shorter working week, accompanied usually by higher wage-rates, has been introduced by such employers in advance of legislation. The standard of legislation even in the more advanced countries, in this respect, remains the eight-hour day. This was an aspiration of the Chartist movement, put into force in 1848 by one of the New Zealand group settlements, and later established as a general practice in the Australian colonies and in New Zealand. It has for at least a generation been the recognised standard of advanced industrial countries and, since the first International Labour Conference in 1919 drafted the Eight Hours Convention, has been the goal of international regulation also.

In the post-war period, however, while the efforts of labour leaders and social reformers were largely directed to securing an extension and consolidation of the eight-hour day, and the forty-four- or forty-eight-hour week, certain highly mechanised industries, or even single establishments, introduced an even shorter working week. The motives which led to this action, and the circumstances which made it possible, were economic rather than humanitarian. Up till the present time such a reduction has been attempted only in a few specific industries, notably the production of motor-cars, in which mass-production methods were particularly suitable and which also enjoyed unusually rapid growth and expanding prosperity in the exploitation of hitherto unsatisfied demands.

Both the reduced hours and the higher wages characteristic of such industries have been justified as providing the leisure and the purchasing power necessary to sustain demand among the workers for the products of the new industries ; but, in fact, the primary reason which made possible shorter hours, higher wages and greater purchasing power was the enormously increased efficiency of production by the new methods. While in the past, when the labourer's skill was relatively a more important factor in production, shorter working hours undoubtedly resulted in improved efficiency and greater production, the predominance of the machine in modern industry has thrown initiative in this respect rather upon the management than upon the workers and reduced hours have been the result rather than

the cause of greater efficiency and increased production. There is every reason to expect that continued, and accelerated, technical progress will extend the possibilities of such reforms over a wider and wider area of production, but the fact must not be overlooked that technical progress depends, not only upon scientific inventions, but also upon the commercial possibilities of utilising such inventions and particularly upon the supply of real capital made available by community savings. A period of rapid credit expansion, in which capital investment runs ahead of savings, is particularly stimulating to those industries which are most likely to utilise new scientific methods and therefore to embark upon the more advanced labour standards. But the nemesis of such a period is an unbalancing of production which inevitably results in a financial crisis, as a result of which the labourers as a class lose infinitely more in unemployment than the fortunate workers in the expanded industries had gained in improved standards.

While it is not possible upon any but experimental grounds to determine at any moment what is the precise degree to which increased productive efficiency warrants the raising of living standards and the shortening of working hours, it is important to distinguish between such improvements as are definitely warranted by such increased efficiency and proposals for raising standards as a means of overcoming financial crisis and economic depression. There is general agreement concerning the wisdom and necessity of allowing increased productive efficiency to be reflected in rising standards, but there is a sharp conflict of opinion concerning the possibility of taking action in circumstances such as the present.

There is an impressive number of instances in which, especially during 1932, and mainly as a result of the initiative of certain groups of employers, working hours have been reduced, generally as a means of spreading available employment. In the majority of cases, such reductions have been accompanied by proportionate decreases in weekly earnings ; but in some instances the same wages are being paid for the shorter working time. [1] Whether such reductions of hours as have been accompanied by the maintenance of earnings will prove tenable must be left to the future. It is possible that, in some cases, they represent a belated recognition of the advances made possible by improved efficiency.

The logical culmination of such a movement, with its mixed background of improved technical efficiency, persistent and

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[1] Cf. the survey made by the International Labour Office, " Hours of Work and Unemployment ", Chapter IV.

costly unemployment, and economic and financial theories advocating the maintenance of consumers' purchasing power, is to be found in the effort to establish by legislative action a more or less uniform shorter working week. The most important national efforts in this direction were the introduction into the United States Congress of a Bill designed to establish a thirty-hour week in industry and the definite action in this respect taken by the German Government in June 1931. [1] The American measure was based upon a recommendation of the President's Committee upon Unemployment, which gave rise to a widespread " share the work " movement fostered, *inter alia*, by the Federal Reserve Bank system. The German measure, referred to above, was also quite definitely designed to share available employment and was accompanied by wage reductions. The international movement naturally took place under the auspices of the International Labour Organisation, whose publications contain the most adequate summaries so far published of the extent to which reduction of hours has been carried up to the present, and of the arguments for and against its consolidation and extension by means of international agreement. [2]

A survey of the literature of this subject reveals the necessity of separating the three main elements of the movement towards shorter hours. Concerning the first, the necessity of allowing increased technical efficiency to be registered in improved working conditions, there is general agreement. While it is possible to exaggerate the degree to which technical progress has been made in industry as a whole, rather than in particular industries under the stimulus of boom conditions, it is a commonplace that the pace of progress has been accelerated in recent years. Most students of the subject would agree that, apart from the unemployment caused by the present breakdown of industry and trade, there is a more persistent problem of unemployment largely caused by structural changes in industry and by the rapidity with which labour-saving devices have been introduced. Geographical shifts in the localisation of industry cannot be combated by shorter hours ; but unemployment caused by improved efficiency of production is generally agreed to warrant a reduction, and it is certain that, when the immediate crisis is past, the movement towards shorter hours will be accelerated.

The use of a shorter working day or week as a means of spreading employment at the present time also commands a con-

[1] Cf. the survey made by the International Labour Office, " Hours of Work and Unemployment ", pages 72-76.

[2] Cf. especially the memorandum published by the International Labour Office under the title " Hours of Work and Unemployment ", Geneva 1933 ; the discussions of the Preparatory Conference in January 1933, and the convenient summary analysis of these discussions by M. Fernand Maurette in the *International Labour Review*, March 1933.

siderable measure of agreement, and most of the instances of reduction recorded seem, in fact, to be prompted largely by this motive. The demoralising effect of continued unemployment, especially when it is concentrated upon the less fortunate workers while those in full employment enjoy higher standards of real wages, is too obvious to need elaboration. The crucial point upon which opinion is sharply divided, however, is whether such a spreading of the available work should be accompanied by a reduction in earnings.

This division of opinion, clearly illustrated in the discussions at the Preparatory Conference organised by the International Labour Office in January 1933, depends fundamentally upon, and is best considered in connection with, the conflicting views held regarding the restoration of consumers' purchasing power as a means of escaping from the present economic depression. Before describing this conflict of opinion, however, reference should be made to certain practical difficulties involved in establishing general principles for the reduction of working hours. Such difficulties in applying a general rule are not new, except perhaps in their international scope. Every proposal for legislation to raise labour standards has encountered such problems as those presented by the smaller, less efficiently organised industries — the necessity of adapting management to the new conditions, and the disturbance of equilibrium between labour costs, capital costs and selling prices. Such problems, however, if the desirability of the reform be granted, have never proved, and are not likely now to prove, insoluble. Even when to industrial differentiation there is added the more difficult problem of international competition between countries at different stages of economic development, there are clear possibilities of administrative adjustment — such, for example, as the suggestion made by the Danish and Swiss Governments' representatives at the Preparatory Conference for regulation by groups of industries.

The real crux of the problem, to which the Preparatory Conference discussions led from every angle, is the division of opinion concerning the wisdom of pressing ahead with such a reform in the midst of a depression. It is clear that any arrangement, even of a temporary character designed to spread work, is likely to become permanent, especially if it is not accompanied by wage reductions. Whether such a definite raising of living standards, involving the probability of some increase in labour costs of production, is opportune at the present time is the real issue of the debate. There is, however, more involved in the discussion than variant opinions concerning the extent to which industrial progress has, in fact, made possible and even necessary a shortening of hours. The reduction of hours accompanied by the maintenance of wages is, in addition, advocated as an

immediate practical way of escape from the crisis on the ground that it will extend consumers' purchasing power and thereby increase demand.

At this point there arises in another form the fundamental divergence of views concerning the nature of the economic and financial breakdown which has been discussed already from many other angles. Those who advocate measures to increase consumers' purchasing power base their proposals upon the theory that the crisis arose because of a failure of purchasing power to keep pace with the increase of productive capacity during the preceding boom. The opponents of this view, while not denying that such a development may occur in the final stages of an investment boom, and be followed by a collapse of purchasing power in the ensuing depression, maintain that the fundamental error of the expansion period was a misdirection of capital resources and over-investment relative to savings. In the latter view, it becomes a primary necessity, in the depression, to liquidate past capital losses and so adjust the costs of production as to make possible again the accumulation of real capital resources out of the restored profits of industry. Measures which would have the effect of increasing labour costs are, in this view, calculated to retard rather than hasten recovery from the depression.

The theoretical problem of the effects likely to be produced in more normal circumstances by a reduction of hours and rising wage-levels can be stated only in tentative, hypothetical terms. Such a change in the supply, and therefore in the price, of labour disturbs the balance between labour and capital costs and between costs in general and demand prices. Where the new equilibrium will finally settle depends upon a number of independently variable factors, such as the changes induced in labour and management efficiency, in the supply of capital, and the rate of interest, as well as in the reactions of consumers' demand.

The practical question, therefore, comes back to the wisdom or unwisdom of launching an advance in labour standards, involving at least temporarily and in certain industries an increase in labour costs. At the moment of writing, in the spring of 1933, the controversy is unresolved and action is suspended. Meantime, events march rapidly in other directions and monetary fluctuations involving fresh and disconcerting disturbances of existing price disequilibria in almost every direction are changing the whole setting of the problem.

Chapter V.

THE PROFITS OF ENTERPRISE.

THE CAPITAL MARKET.

The preceding chapters devoted to production and prices have clearly shown a very great shrinkage of national incomes since the depression began. Other chapters demonstrate the difficulty of maintaining wages and governmental expenditure at their pre-depression levels. In the present chapter, attention is directed to what is often described as the " residual " share in the national income, the profits of business and financial enterprise. It will be shown that business earnings have declined very heavily, so that actual profits have in many important instances been turned into substantial losses, especially during 1932. At the same time, it is clear that, during the early stages of the depression, a general attempt was made to maintain dividends, even though earnings had seriously declined. The maintenance of wage-rates, dividend payments, debt service and governmental expenditures in face of shrunken national incomes, however, was rendered possible only by drawing upon or failing to replenish capital reserves.[1] As the depression persisted it

[1] *E.g.*, in Germany, the annual investments in fixed capital and stocks have been estimated as follows in RM. (000,000,000's).

Year	Fixed capital (Anlagen) Net investment	Stocks (Lager) Net investment
1924	2.7	5.5
1925	4.5	2.7
1926	5.2	— 2.4
1927	7.2	4.1
1928	7.3	2.7
1929	6.1	— 1.0
1930	4.0*	— 3.9 *
1931	—	— 5.0 *
1932	— 3.0 *	...

Vierteljahrshefte zur Konjunkturforschung, VII, 4. Teil, A. *(Sonderheft zur Konjunkturforschung* 32). *Konjunktur-Statistisches Handbuch*, 1933.
* Provisional.

became clear that there was proceeding a distributive struggle of profound significance, and that upon the issue of this struggle depended the possibility of replenishing capital resources. The pages which follow are devoted to various aspects of this double problem.

The growth and ramification of the capital markets in highly developed financial communities has been very rapid in recent years. The processes by which capital is heaped up through the collection of small and large amounts from different sources and redistributed into the many and diverse channels of investments are complex and intricate. The small capitalist who, by severe economy, accumulates a balance in his savings-bank account, the building society member who pays small regular contributions, the policyholder who makes his savings by paying insurance premiums, all play a part, individually negligible perhaps, but of great aggregate significance in the supply of capital. Their savings are reinforced by the reserves set aside by great corporate enterprises, and the whole fund of capital contributed from these and many other diverse sources is distributed to a multiplicity of borrowers ranging from Governments to small private enterprises and individuals by the operations of many different types of financial institutions.

The liquid medium through which this continuous but complicated process of accumulation and redistribution takes place is credit. The lender, whether he is a child depositing pennies in a savings bank or the director of a large enterprise determining the proportion of net earnings which will be placed to reserve, takes a decision which, directly or indirectly, gives over to another person the purchasing power which might be used by him for immediate consumption. The command over real resources — goods and services — is transferred from lenders to borrowers.

The whole process, however, is complicated by the fact that it becomes merged with, and in practice indistinguishable from, the process by which all payments are made. The modern credit system, in providing a means whereby goods and services are exchanged, provides at the same time the means whereby resources are transferred from lenders to borrowers.

Credit however is, and must be, managed and directed by human intelligence. In the last resort, it depends upon nothing more than faith or confidence that the resources, or the titles to resources, which are entrusted to another person or institution will be repaid in accordance with the contract entered into. The complexity of modern transactions has created the necessity for specialised financial institutions to judge and interpret, not only the credit-worthiness of individual transactions, but

the demand and supply of credit in the community as a whole.

The extent to which these financial institutions occupy a dominating position in the present economic system depends, not only on their actual size, but also upon their influence on all other economic enterprises. Their size may be judged by the following statistical estimates. In the United States, the capital invested in financial institutions was registered in 1929 as approximately 26 per cent of the total capital invested in corporate enterprises ; their income was about 20 per cent of the total corporate income, while their liabilities were over 40 per cent of the total liabilities of all corporations.[1] In Germany, in 1928-29, their capital was about 20 per cent, income about 22 per cent, and public liabilities over 60 per cent of the total.[2] In Italy, their capital was in 1930 about 15 per cent of the total capital of all companies and their public liabilities about 60 per cent of all companies. [3] These statistics, while subject to a liberal margin of error, indicate how large a proportion of the resources and activities of a modern community are engaged in the financing of industry and commerce.

Because of their intrinsic importance as large-scale institutions, the financial structure of these great financial enterprises deserves separate examination. In themselves, they constitute an important channel of investment, and decisions in regard to their capital structure, dividends and reserve policies bulk large in the determination of financial policies in the economic system as a whole, apart altogether from the influence they exert upon other forms of investment. Fairly complete statistics are available for a number of countries as far as the most important financial institutions — the commercial banks — are concerned. These are summarised in the League of Nations *Memorandum on Commercial Banks*, 1913-1929.[4]

Attention was drawn in the *World Economic Survey*, 1931-32, to some of the important changes in the banking situation after the war. [5] There was, *inter alia*, a strong tendency in many countries for the liabilities of the banks to increase at a faster rate than the increase in their capital. [6] This was the case, for example, in such countries as Austria and Germany, where post-war reconstruction was financed largely by international

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[1] Cf. United States Treasury Department, *Statistics of Income*, 1929, pages 332-337.

[2] Cf. *Vierteljahrshefte zur Statistik des Deutschen Reichs* 1930, II, page 72 (only companies with a capital of at least a million RM. share capital or shares quoted on the Stock Exchange included).

[3] Societa Italiane per Azione, *Notizie Statistiche* 1932, pages 19 and 20.

[4] 1931. II. A. 26. A new edition, covering the years 1925-1933, will be issued at the end of 1933.

[5] *World Economic Survey*, 1931-32, Chapter VII.

[6] *Ibid*, page 207, and *Commercial Banks*, 1913-1929, page 26.

loans, which reached industry through the banks. But there was, in the period of war inflation, a general tendency for the proportion of capital to liabilities to be lowered, and this tendency persisted in many countries after currency stabilisation had been achieved. In the later stages of inflation, many enterprises accumulated large hidden reserves, and these were transferred again to capital account after the currencies had been stabilised. After this readjustment, however, the proportion of capital to turnover began in many countries to decline again. In almost every country the proportion remained considerably lower in 1929 than it had been in 1913. This was a natural continuation of the well-recognised tendency, even before the war, for the volume of credit to expand relatively to the capital of the financial institutions. There is an increasing complication of exchange in modern economic life and some part of the apparent increase is due to the multiplication of transactions ; but the relatively more slender capital basis upon which these transactions were conducted rendered the banking systems of many countries more vulnerable in the event of major shocks to credit, such as, in fact, occurred in 1929 and the following years.

While the expansion of credit before 1929 was greater than the increase of banking capital, there was in most countries a substantial increase in that capital. In those countries which had suffered currency inflation, there were losses of banking capital which were only partially restored after stabilisation. Thus, in Germany, Austria, Hungary and France, bank capital was less in 1929 than in 1913. In all other countries for which information is available, except the Argentine, commercial banking capital and reserves have been increased above the pre-war amount. The increased vulnerability referred to in the previous paragraph was therefore caused by the credit expansion, not by a shrinkage of capital. [1]

There is evidence also of a considerable growth in many countries of other types of financial institutions. Among these may be mentioned the investment trusts in the United States, to which attention was drawn in the *Survey* for 1931-32. [2] The total capitalisation of the investment trusts in the United States rose from $15 million in 1923 to $3.990 million in 1929. The rapid development of investment trusts and the high rates of profit earned by them, largely from sales of securities that had appreciated, was a considerable factor in the speculative boom in the United States. [3]

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[1] *Commercial Banks*, 1913-1929, page 28.

[2] Pages 51 5.

[3] Cf. Joseph A. Thomas, " Ten Investment Trusts in America ; a Three-Year Record ", *Harvard Business Review*, October 1930.

Moreover, there was a distinct tendency — measurable in the United States — for the profits of financial enterprises to increase faster than those of industrial enterprises. The incomes of manufacturing corporations in that country increased at an annual rate of 5.3 per cent in the boom period, and that of trading enterprises fell by 0.2 per cent, while construction and public utility corporations showed an annual gain of 10 per cent and financial institutions a gain of 16 per cent. [1] This higher rate of increase was shared by all the principal forms of financial enterprise — commercial banks, savings banks, loan and trust companies, stock brokers, real estate companies and insurance firms. There was, however, a very high casualty rate among these enterprises, giving evidence of a speculative market.

It is, however, mainly in respect of their influence upon credit, and thereby upon the capital market in general, that financial institutions in the post-war period contributed to the disequilibrium that arose between the actual earnings, and therefore the new savings of industry, and the burden of capital charges that industry had to carry.

Speculation and the growth of financial institutions were most marked perhaps in the United States ; but the same tendencies were evident in many other countries during the period before 1929. Attention has been drawn to this tendency in a previous publication of the League of Nations [2] and is referred to in another connection later.

There are not, and cannot be, in the constant flux of human activity that makes up the economic system, any set and invariable rules by which those who direct these specialised institutions — bankers, brokers, financial middlemen of all kinds — may be sure in advance that their judgment and estimates of the credit situation will be accurate. On the contrary, the money market is so organised as to provide for the play of interacting, competitive forces, which, by a continuously corrected process of trial and error, keeps the demand and supply, and the prices, of the various forms of credit in fairly stable if shifting equilibrium.

It is not surprising, therefore, to find that the actions of financial institutions in estimating the credit needs of the community must often be reckoned an active rather than a passive factor, influencing not only the means of payment in general, but also the supply and demand of capital. It is often said that, in an ideal society, the supply of monetary means of payment should be kept " neutral " and should be governed

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[1] F. C. Mills, " Economic Tendencies in the United States ", New York 1932, pages 482-485.

[2] *Commercial Banks*, 1913-1929, page 14.

by the demands for it set up by economic transactions. But such an ideal is never perfectly achieved, and errors of estimation and judgment are often cumulative. The consequences have been aptly described as resembling a chemical reaction which " proceeds regularly while the temperature of the medium in which it is immersed remains constant, but quickens when the temperature rises and slackens when it falls. So the operations of the Money Market, immersed as it were in a medium of credit, proceed regularly when the level of credit is normal, quicken as this level rises and slacken when it falls." [1]

This influence of the supply of credit upon the relationships between savings and investment is particularly important in such periods as that from 1925 to 1929, when there was a great expansion of credit in practically every country of the world. It was equally important in the years following 1929, when the supply of credit contracted violently and cumulatively in most countries.

In the language used above, both the level and the temperature of the credit stream were rising almost continuously from 1925 to 1929, and both have been falling rapidly since 1929. In other words, the amount of credit made available in the world's money markets offered favourable opportunities to borrowers in the former period and tended to discourage them in the latter. Such a broad statement, however, needs a very great deal of qualification before it fits the actual circumstances. Perhaps the best measure of the volume of credit made available in these years is found in the deposits of the commercial banks. While most countries shared in the growth of deposits before 1929, the increase was most marked in those which were most engaged in international lending and borrowing. The United States, among creditor countries, and Germany, among the debtors, are outstanding examples ; but, as the accompanying diagram shows, the tendency to increase was widespread.

Comparison of the total amounts of bank deposits at different periods, however, only tells part of the story. The rapidity with which these deposits were turned over, or, in economic language, the velocity of circulation, multiplies their effectiveness. In periods of expanding credit and active business, the velocity of circulation increases, so that a given volume of credit changes hands more often and is therefore capable of financing a greater number of transactions. The variations in the velocity of credit transactions have been measured in the United States, and the calculations show that the annual turnover of accounts, which

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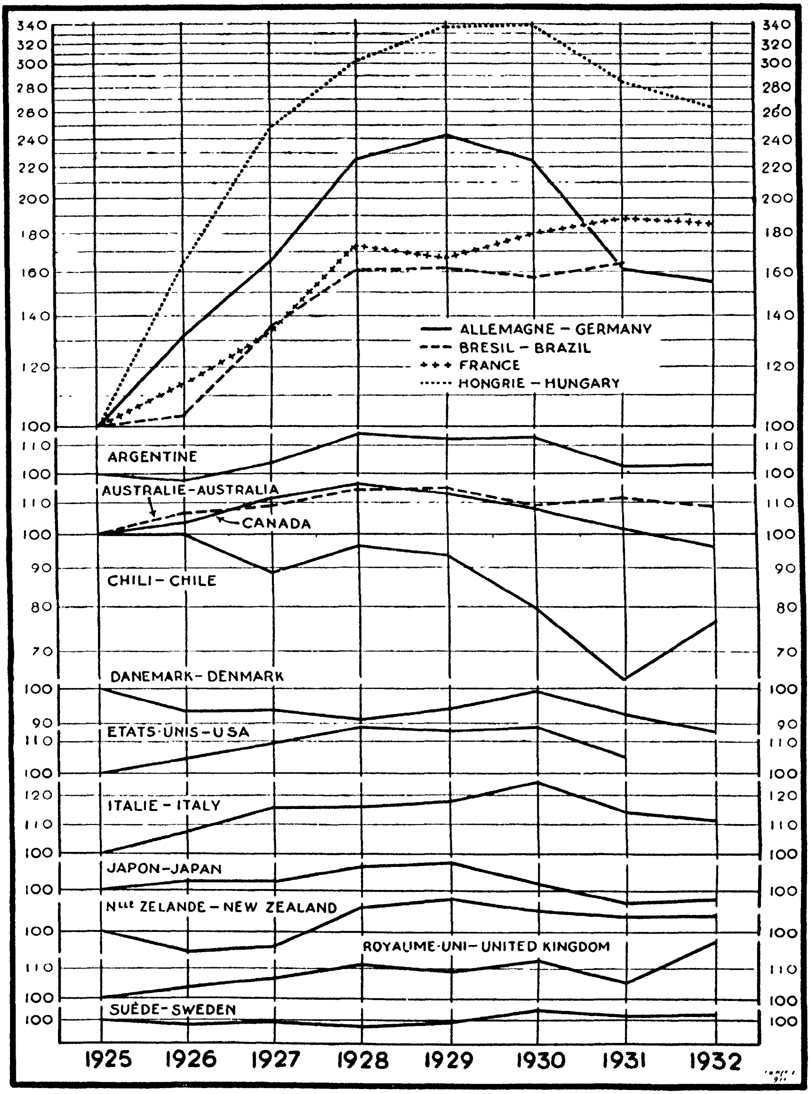
[1] F. Lavington, " The English Capital Market ", London, Methuen, 1921, page 21.

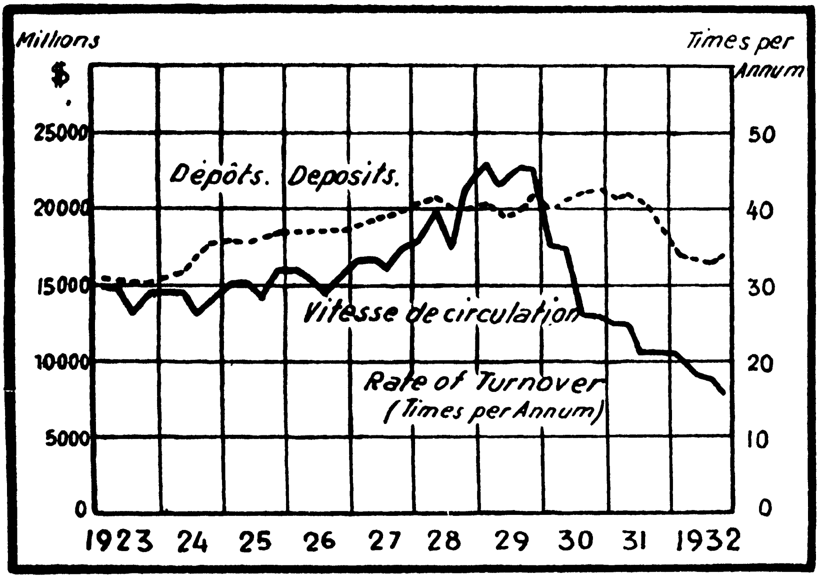
Commercial Bank Deposits, 1925-1932.
(At the End of Year.)

(1925 = 100).



was between 26 and 32 times per year in 1923-1925, rose steadily, till, by October 1929, it was 45 times per year. In 1930, the figure fell abruptly to 26, and continued to fall till, in the last quarter of 1932, it was only 16. The fluctuations are summarised in the following diagram.

Deposits and Rate of Turnover of Reporting Member Banks in Leading American Cities. [1]



These statistics indicate how large a part fluctuations in the velocity of circulation played in the expansion before 1929, and equally in the contraction of the following years. Their effect in swelling the total volume of credit transactions, particularly in the years 1927-1929, was illustrated in the *Survey* for 1931-32 by a diagram which showed that transactions increased by over 60 per cent from the beginning of 1927 to the peak in October 1929, while the net deposits of the banks which were members of the Federal Reserve system did not increase more than 6 per cent. The most recent calculation available illustrates the enormous contraction of transactions since 1929. " Between 1929 and 1932 the total decrease in debits to individual accounts may be estimated at more than $700,000 million, or 70 per cent, of which two-thirds represents a decline in debits at banks in

[1] *Federal Reserve Bulletin*, January 1933, pages 4 and 5.

New York City. The greater part of this decline in New York reflects a decrease in the volume of security transactions and a sharp decline in security prices. Developments in the security markets have also been an important factor in the decline of debits at banks outside New York City, but at these banks changes in the total volume of money payments have been affected in an important degree by decreases in business activity and lower levels of prices and wages." [1]

There seems little doubt that, not only in the United States and in certain borrowing countries where the evidence is equally clear, but in practically all countries, the expansion of credit, bearing in mind local circumstances, was greater than the actual growth of industry. A tabular statement in the *Survey* for 1931-32 [2] shows that, even when allowance was made for price changes, the deposits of commercial banks increased in the years 1925-1929 by percentages ranging from 17 per cent in the case of Sweden to 104 per cent in Germany. When it is remembered that the velocity of circulation also increased in this period, it is clear that the increase of credit transactions in many countries was much greater than that of population, production or trade.[3]

The most important effects of such credit expansion are to be found in a distortion of productive organisation. The increased credit available draws real resources from one use to another. Not all industries and occupations and, in these days of international borrowing, not all countries advance at the same pace. It may be shown that, between 1922 and 1929, industrial production in the United States increased faster than the burden of domestic debt ; but such a statement needs to be supplemented by such facts as those relating to American loans to countries where debt increased faster than production, and by reference also to the irregularity of the industrial advance within the United States, as well as to the great speculative market in securities and real estate which developed in this period.

An examination of the assets side of banking balance-sheets shows a clear tendency towards a weakening of the distinction between pure deposit banking and investment banking. There was also an increased creation of new financial institutions such as financial trust and holding companies. " Such companies have experienced a marked development in recent years, both in the countries where industrial banking is most characteristic and in those where deposit banking still predominates." [4]

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[1] *Federal Reserve Bulletin*, January 1933, pages 4-5.

[2] Page 209. For the increase in production and trade, see also *World Economic Survey*, 1931-32, *passim*.

[3] *Federal Reserve Bulletin*, January 1933.

[4] *Commercial Banks*, 1913-1929, page 14.

A great part of the credit expansion, in other words, was not devoted to financing a growing volume of production and trade, though such a growth did account for some of the additional credit issued. It was devoted to creating new financial institutions and to speculation in industrial and financial securities and real estate. The index-numbers of security prices in this period show movements out of relation to the much slower increase in production and trade.

Index-Number of Stock Exchange Security Prices.
(Average of Years.)
(Base : 1925 = 100.)

Country	1925	1926	1927	1928	1929
Germany	100	113.2	165.3	152.6	135.2
Austria.	100	95.4	116.5	112.8	103.1
Canada	100	131.9	173.6	245.5	352.2
United States . .	100	113.1	133.0	174.5	214.3
France	100	110.7	134.1	202.4	256.1
Netherlands . . .	100	100.0	111.8	122.6	125.8
Poland	100	61.9	149.7	157.6	104.7
United Kingdom .	100	105.5	113.8	130.3	127.5
Switzerland . . .	100	120.5	145.4	178.5	170.3
Czechoslovakia . .	100	90.9	113.6	161.4	162.5

There is little need to give further evidence of widespread speculation in securities and real estate during the boom period. The instability which resulted from the heavier nominal burden of ownership claims thus loaded upon the world's productive organisation has become a matter of history. A later section of this chapter is devoted to a summary description of the manner in which these exaggerated property claims have broken down the productive mechanism and have finally recoiled in many cases upon the banking and currency systems of the countries concerned.

Industrial Finance before the Depression.

It has been shown that, in some countries, prior to 1929 the capital market was stimulated to an almost feverish activity by the prevailing credit conditions. Much of the increased credit made available went to support a speculative boom in real estate and securities. Some of it went also to the expansion of financial enterprises. As in all such periods, however, the abundance of credit also stimulated industrial investment. There was, after the pacification and stabilising of Europe in the early 'twenties, a genuine economic revival based upon the

demands for reconstruction, and this would in any case have led to increased industrial investment and a period of active business. An immense extension of international lending, together with domestic speculation in many countries, both facilitated by a cheapening of certain forms of credit, exaggerated the revival of 1925-1929 into a reconstruction boom. In the course of that boom there was a considerable distortion of industrial investment and probably, in the aggregate, over-investment relatively to the world's savings. While the total over-investment cannot, in the present state of statistical knowledge, be precisely demonstrated, there is little doubt that in many countries, and in many industries, investment was pushed to such lengths as seriously to disturb the balance of industrial development. The inevitable result was a derangement of prices leading to a persistently falling price-level and a prolonged period of depression in which the necessity of re-valuing the investments of the boom period became more and more imperative.

In the present section an attempt is made to analyse, and to give statistical illustrations of, the financial policies of business enterprises in the years preceding the depression. The material used is drawn as far as possible from official sources. This material, however, is both fragmentary and difficult to interpret. Despite the advance in accounting methods and the general tendency for the taxation of corporate enterprises to increase, the published official statistics, both of the valuation and of the income of such enterprises, leave a great deal to be desired from the point of view of economic analysis. They may be supplemented to some extent by private investigations, particularly of business profits, which utilise the published balance-sheets of particular enterprises. Such private investigations are almost necessarily confined to comparatively small samples of the total of business activity within a country and, moreover, encounter great statistical difficulties in any attempt to establish a comparable series over a period of years. As increasing attention is directed by economists and statisticians to this fruitful field of research, some progress is being made in surmounting the technical difficulties presented by the available data; [1] but no amount of statistical ingenuity can overcome the fundamental difficulties arising from the incomplete, and sometimes inconclusive, nature of the information made available to the general public.

In the discussion which follows, no attempt is made to separate the various elements of which business profits are composed.

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[1] Cf., *e.g.*, Sir Josiah Stamp, " Industrial Profits in the Last Twenty Years : A New Index Number ", *Journal of the Royal Statistical Society*, Vol. XCV, Part IV, 1932.

The statistics used are those of the net earnings of industrial and commercial corporations, excluding financial enterprises. Net earnings include the very important element of interest upon owned capital, as well as profits in the narrower economic sense of reward for undertaking risk. Essentially the profits of business enterprise, as measured by the available statistics, consist of the share of the product of industry taken to satisfy ownership as distinct from wage claims or payment for borrowed capital.

It must be recognised, also, that there are considerable variations, not only in the use of terms, but also in the actual financial structure and in accountancy methods, that render impossible exact comparisons between developments in different countries. Attention may be drawn, on the other hand, to significant tendencies which appear in more than one country.

The first broad generalisation which may be made is that in the years immediately preceding the depression there was a rapid increase in the value of the capital invested in corporate undertakings as measured by the statistics of paid-up capital, both preferred and ordinary, and of undivided profits carried to reserves. This may be illustrated by the following table.

Growth of Owned Capital Invested in Corporate Business Enterprises, 1925-1929. [1]

Country	Unit	1925	1926	1927	1928	1929
United States	$(000,000,000's)	94	98	107	113	122
Italy	Lire (000,000,000's)	29	34	38	41	45
United Kingdom[2]	£(000,000's)	880	980	980	1,060	1,080
Switzerland	Francs (000,000's)	2,779	2,733	2,829	2,920	3,057

While these figures show a general tendency to increase in the years 1925-1929, the rate of increase varies considerably from country to country. It is not possible to comment upon such variations, since the data is inadequate. Nor is it possible, in the absence of adequate information concerning the volume of savings in the various countries, to form a final opinion concerning the relation of investment to actual savings. There are, however, certain indications that point to the probability

[1] Owned capital defined as share capital plus reserves and balances carried forward, except in the case of Switzerland where the statistics are of share capital only.

United States : *Statistics of Income.*
Italy : Societa Italiane per Azioni, *Notizie Statistiche.*
United Kingdom : Colin Clark : *The National Income*, 1924-1931.
Switzerland : *Annuaire Statistique de la Suisse*, 1926-1930.

[2] The statistics refer only to a selected sample of 700 industrial companies and therefore do not measure the aggregate growth of all companies. Statistics of the paid-up share capital of British joint-stock companies registered under the Companies Act, 1862, which includes financial joint-stock companies, are as follows : (£000,000's), (1925) 4,519, (1926) 4,686, (1927) 4,907, (1928) 5,027, (1929)

that, in the post-war period as a whole, and especially in the years 1925-1929, important sources of savings decreased. This is clearest in the case of the so-called " automatic saving " of corporate enterprises. Under the pressure of heavy taxation, and of the changed nature of their capital obligations, these enterprises were not able to set aside reserves in the same proportions as before the war. This fact is illustrated in the following table, which includes financial as well as industrial enterprises. It will be clear that the proportion of earnings set aside as reserves fell between 1925 and 1929. Credit in certain forms was so plentiful in those years, especially in the United States, that it was more profitable for the companies to float new issues on the market than to set aside reserves from their own earnings in order to finance expansion of their enterprises.

Percentage of Industrial Profits Placed to Reserves. [1]

Country	Average 1910-1914	1925	1926	1927	1928	1929
Germany [2]	23	23	22	20	19	14
Italy	.	25	21	22	22	20
United Kingdom [3] . . .	26	22	21	17	22	19
United States	.	31	20	[4]	14	1

An attempt has been made in Germany to measure the proportion of such corporate savings both to the total net investment of new fixed capital (Neuanlagen) plus additions or decreases of stocks (Vorräterveränderung) and changes in gold reserves (Goldbestandveränderung) and to the national income. The results of this investigation are summarised in the table which follows :

Investment in Germany, 1924-1929. [5]
(RM., 000,000,000's).

	1924	1925	1926	1927	1928	1929
Net investment	8.5	7.7	3.3	11.3	10.8	4.6
Net capital imported from abroad	1.0	3.4	0.6	4.4	4.2	2.3
Net domestic investment . . .	7.5	4.3	2.7	6.9	6.6	2.3
Undistributed company profits.	...	0.9	0.9	1.3	1.3	0.8
National income	...	60.0	62.7	70.8	75.4	76.1
Net domestic investments as a percentage of national income	...	7.2	3.7	9.7	8.8	3.0

[1] Germany : *Vierteljahrshefte zur Statistik,* 1911-1915, 1926-1930.
Italy : Societa Italiane per Azione, *Notizie Statistiche,* 1932.
United Kingdom : *Economist,* Bank of England Statistical Summary, March 1932.
United States : *Statistics of Income,* 1925-1929.

[2] Companies with a nominal capital above 1,000,000 RM. (about 85 per cent of total).

[3] Insurance companies excluded.

[4] No net savings.

[5] Institut für Konjunkturforschung : *Sonderheft* 22, page 26 ; *Wochenbericht* 1932, No. 23, page 94. Statistisches Reichsamt, *Statistisches Jahrbuch für das deutsche Reich,* 1932, page 526.

A distinct rise is shown in the proportion of national income devoted to investment in the boom years 1927-1928, apart from the capital borrowed abroad. Of this new investment, however, a lower proportion was provided by the undistributed profits of the corporate enterprises themselves. [1]

In the absence of adequate statistics concerning the various forms of savings and the manner in which such savings are invested, [2] it is not possible to support or criticise the widely held opinion that, in the boom years, investment proceeded at a faster rate than capital could be accumulated through the ordinary means of saving, and that a part of the investment was, in fact, made possible by credit inflation. The German estimates quoted above, however, draw attention to the great part played in the borrowing countries during the years before 1929 by international lending. A clear distinction needs to be drawn between the capital-exporting and the capital-importing countries. In the former, business indebtedness, while remaining high and increasing in some cases, did not increase as fast as the capital and reserves invested as equities. In such countries it was possible to finance the expansion of business by direct appeal to the capital market resulting in the flotation of new shares, or simply by using undivided profits. Thus, in the United Kingdom and in the United States, as will be evident from the following table, the proportion of indebtedness to capital fell on the whole between 1925 and 1929. This statement, however, needs some qualification in the case of the United States, where there was a marked increase in certain forms of business indebtedness after 1927 and where a change in banking policies facilitated the flotation of new issues by a large expansion of bank loans upon industrial securities. While not strictly a creditor country, Italy has been included in the first group, since industrial finance in that country in recent years has relied mainly on the domestic capital market,

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[1] Colin Clark, " The National Income 1924-1931 ", London 1931, pages 63, 70, 138, gives the following estimates for the United Kingdom, which are roughly comparable with the German figures quoted above.

(£000,000's)

	1924	1925	1926	1927	1928	1929
National income	3,586	.	3,684	3,887	3,849	3,996
Home investment (after meeting depreciation)	218	459	240	215	214	168
Undistributed profits	167	162	128	186	168	169
Deduct losses and dividends (if any) of concerns making losses	— 9	— 17	— 19	— 20	— 14	— 16

[2] New capital issues are not a reliable guide even of the trend of investments. Cf., *e.g.*, Clark, *op. cit.*, pages 136 and 137 : " A scrutiny of prospectuses in recent years will show, however, that never more than 30 per cent of the new issues, and in some years less than 10 per cent, are in any sense ' net '. The bulk of all new issues goes for purchase of existing business and assets of all kinds ".

as in the United Kingdom and the United States. There was no great inflow of borrowed money, and new investment took place mainly from domestic resources. Italy did not stabilise her currency till December 1927, and what import of capital took place after stabilisation was mainly a return flow of Italian capital which was invested in equities more readily than foreign loans might have been.

Indebtedness of Business Corporations as a Percentage of Owned Capital.

(Creditor countries.)

Year	Italy [1]			Netherlands [2]		
	Capital	Debt	%	Capital	Debt	%
	Lire (000,000,000's)			Gulden (000,000's)		
1913 . . .	3.8	3.1	81.8			
1925 . . .	28.2	28.1	100.0	370	326	88.1
1926 . . .	33.3	32.8	98.6	376	328	87.2
1927 . . .	36.9	34.6	93.8	388	330	85.1
1928 . . .	40.0	35.9	89.7	418	339	81.1
1929 . . .	44.2	37.8	85.5	562	362	64.4
1930 . . .	47.6	39.6	83.2	586	369	63.0
1931 . . .	45.2	37.0	81.7	589	327	55.5

Year	United Kingdom [3]			United States [4]		
	Capital	Debt	%	Capital	Debt	%
	£ (000,000's)			$ (000,000,000's)		
1913 . . .						
1925 . . .	2,730	1,600	58.6	93.7	...	...
1926 . . .	2,740	1,590	58.0	98.1	64.6	65.9
1927 . . .	2,850	1,610	56.5	107.3	67.3	62.7
1928 . . .	3,170	1,610	50.8	112.9	68.6	60.8
1929 . . .	3,100	1,560	50.3	121.6	73.5	60.4
1930 . . .	3,200	1,610	50.3	120.6	73.5	60.9
1931 . . .	3,200	1,600	50.0			

[1] Societa Italiane per Azioni, *Notizie Statistiche :* The figures include all joint-stock companies, less financial and agricultural companies.
Owned Capital : Share capital and reserves.
Debt : Debentures and other creditors.

[2] Dr. A. Sternheim's figures, *Nederlandsche Konjunctuur Maart,* 1933, page 17. Eighty important companies.

[3] Colin Clark : " The National Income ", Appendix 1. Sample of balance-sheets of manufacturing and mining companies.
Owned Capital : All capital less debentures and creditors.
Debt : Debentures and creditors.

[4] United States : Treasury Department, *Statistics of Income,* 1925-30. All joint-stock companies, less financial companies.
Owned capital : Share capital, reserves and balances carried forward.
Debt : Accounts and notes payable, bonds, mortgage and miscellaneous items not segregated by nature of liabilities.

In the capital-importing countries, the trend to increased indebtedness both absolutely and relatively to owned capital was unmistakable as soon as the capital adjustments after the inflation period had been carried through. Thus, in Hungary, the proportion of debt obligations to capital increased between 1927 and 1929 from 78.1 to 88.2 per cent. The increase in Germany between 1925-26 and 1929-30 was from 57.7 to 84.2 per cent. Roumania is a conspicuous exception to the general rule.

Indebtedness of Business Corporations as a Percentage of Owned Capital. [1]
(Debtor Countries.)

Year	Denmark			Germany			Hungary		
	Capital	Debt	%	Capital	Debt	%	Capital	Debt	%
	Kr. (000,000's)			RM. (000,000,000's)			Pengö (000,000's)		
1925 .	1,494	1,558	104.3	14.7	8.5	57.7	...		85.8
1926 .	1,567	1,278	81.6	16.6	10.8	65.1	...		69.3
1927 .	1,517	1,250	82.4				1,303	1,017	78.1
1928 .	1,476	1,185	80.3	18.7	15.3	81.8	1,404	1,225	87.3
1929 .	1,536	1,248	81.3	19.6	16.5	84.2	1,490	1,314	88.2
1930 .	1,759	1,465	83.3	19.3	15.8	81.9	1,542	1,238	80.3

Year	Poland			Roumania		
	Capital	Debt	%	Capital	Debt	%
	Zloty (000,000's)			Lei (000,000,000's)		
1925 .	...	...	...	25.2	30.0	119.1
1926 .	1,779	1,694	95.2	33.8	34.7	102.5
1927 .	2,561	2,088	81.5	41.2	39.1	95.0
1928 .	3,868	2,996	77.5	46.1	43.6	94.6
1929 .	4,600	3,769	81.9	50.6	46.6	92.1
1930 .				55.6	43.7	78.6

Such a development, which is not merely a post-war phenomenon but was characteristic also of pre-war periods of business expansion, raises difficult questions of international finance. [2]

[1] Denmark : *Statistisk Aarbog*, 1926-1932.
Germany: *Vierteljahrshefte zur Statistik*, 1926-1932.
Hungary : *Annuaire Statistique*, 1926-31 (industry only).
Poland : *Annuaire Statistique*, 1926-1930 ; *Informations Statistiques, Fascicule Spécial*, III, 1932 ; Polish companies only.
Roumania : *Buletinul Statistic al Romaniei*, 1932, No. 1, page 46.
In all countries, owned capital consists of share capital plus reserves, excluding special accounts such as staff pension funds.

[2] The proportion between borrowed and owned capital increased in Hungary from 57 per cent in 1905 to 78 per cent in 1907, fell after that year of crisis, but increased again from 68 per cent in 1910 to 79 per cent in 1912. In Prussia it rose from 76 per cent in 1905 to 85 per cent in 1907, but fell in 1908 to 79 per cent. In Germany as a whole it was 81 per cent in 1907-08, but fell to 67 per cent in 1908-09, rising again to 88 per cent in 1912-13.

The borrowing countries, because of the various factors that cause their shortage of capital, are not able to offer the security which is necessary to attract capital upon the ordinary risk-sharing basis. They tend, indeed, to find their capital for new investment largely from bank advances which are later repaid when the business, once established, is able to float a capital issue to be taken up by private investors. There is, therefore, a constant danger in periods of expanding trade that the investment promoted by means of bank advances based in part upon international borrowing will, in the downward turn of the cycle, prove embarrassing both to debtors and to creditors. It was largely this tendency to finance an over-expansion of business by means of debt, and especially foreign debt, which made many of these borrowing countries a source of weakness in the present depression.

There is a further important comment to be made concerning the indebtedness of industry as compared with the capital invested in the form of equities. As the preceding tables show, the absolute amount of indebtedness, even in the creditor countries, increased substantially in the case of the United States of America and remained approximately at the same level in the United Kingdom during the years 1925-1929. In the debtor countries, the increase of indebtedness was even more noticeable. Industry in general therefore carried a much heavier load of debt when the boom came to an end in 1929, and the fixed charges upon this debt remained as a depressing influence upon profits after earnings fell off in the depression. In such conditions as have persisted from 1929 to 1933, capital invested in the form of shares may be deprived of its dividends ; but debt charges cannot be reduced except by agreement with the creditors or by default.

Moreover, there were peculiarly difficult aspects of this swollen indebtedness in the present depression. In the debtor countries, much of the borrowed capital had come to industry by foreign loans contracted through the banking systems, and the inability of industrial enterprises to meet their obligations therefore shook the stability of the banks which had borrowed in order to promote industrial investment. There was not only a transfer problem involving foreign exchange difficulties, but the liquidity of the banking systems was imperilled.

In many countries, too, there was a marked tendency for industrial borrowing to take the form of long-dated bonds or debentures that could not easily be converted into less onerous debts as interest rates fell. Thus, in the United Kingdom, the issues of debentures rose from 58 per cent of all borrowed capital in 1924 to 68 per cent in 1929. [1] In the United States of America,

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[1] Clark, *op. cit.*, page 143.

bond and mortgage indebtedness rose from 25 per cent of the total business indebtedness in 1926 to 50 per cent in 1929.[1]

Apart from the tendency for indebtedness to grow relatively to actual share capital, there was a more universal tendency towards a change in the nature of the share capital itself. Partly because of the increase in the number of small shareholders, and in the amounts of capital accumulated by financial institutions such as insurance companies as the result of widely dispersed small savings, but partly also because of the more general insecurity of business enterprises in such a disturbed period, there was a strong incentive to seek investment in preferred rather than in ordinary shares carrying the full risks of industry. In the United Kingdom, for example, there was, between 1924 and 1929, an increase in the proportion of preferred shares,[2] and the same tendency may be seen in the United States of America.[3]

The effort made by large corporate enterprises to maintain regular dividends was partly in response to this tendency for investors to seek the greater security of preferred shares or debentures. The importance of offering a greater measure of security strongly reinforced the trend of professional management towards policies of maintaining regular, equalised dividends. Further reference will be made to this aspect of financial policy in the later section dealing with the depression period.[4]

Another element of rigidity to which special reference is necessary was the influence exerted, not only upon the burden of indebtedness, but also upon the dividend policies of corporate enterprises, by the high interest rates upon industrial investments, particularly on long-term, that ruled after the war.[5] These high interest rates were maintained by a combination of causes, among which may be mentioned the existence of a large amount of war loan issued at high rates, the actual shortage of capital in many countries in the post-war period and the great degree of political and economic insecurity that prevailed. It is true that, for some months during the boom period, exceptionally low rates of short-term interest were prevalent on the chief financial markets. These did not, however, bring about a lowering of the long-term rates and the possibilities of financing

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[1] *Statistics of Income*, published by the United States Treasury.

[2] In the case of the companies included in the *Economist's* statistics, the preferred capital was, in 1924, 56.5 per cent of the common stock and, in 1929, 58.4 per cent.

[3] According to *Statistics of Income*, published by the United States Treasury, preferred stock represented, in 1924, 22.7 per cent of common stock, in 1926, 27.4 per cent and, in 1929, 24.1 per cent.

[4] See below, pages 145-6.

[5] Keynes, " The Future of the Rate of Interest ", Index Vol. V, No. 57, September 1930.

industrial enterprises in the short-term market are limited. It is obvious that the continuance of high interest levels not only made the increased indebtedness of industry a much heavier burden upon its earning capacity, but also created the necessity for maintaining dividends at levels sufficiently high to compete with the opportunities for investment offered by bonds whose yield was influenced by the existence of war loans with a high fixed interest.

In the preceding discussion, attention has been focussed upon the actual capital structure of corporate business enterprises as stated in their balance-sheets. Tentative though the analysis must be in the absence of more complete and authoritative data, it is all in the direction of suggesting that the course of real investment in most countries before 1929 was such as to overrun the actual savings of the community. No account has been taken up till now of the fact that, particularly in the later stages of the boom before 1929, there was a considerable rise of capital values in the security markets. Some of this rise, which was the result of one of the most sustained speculative markets ever known, was transferred to the actual valuation of industrial capital. In the course of the boom, there were numerous examples, not only of new capital flotations, but also of consolidations, mergers, the formation of holding companies and similar expedients by which the capital of existing enterprises was transformed into new and watered capital valuations of old and new enterprises. Moreover, the rise of security values was intimately associated, in the United States of America at least, with the financing of new issues by means of bank advances upon industrial securities as collateral. When the Stock Exchange boom broke, the rapid decline of security values reduced them to levels much more closely approximating the actual capital valuation of the enterprises and therefore, presumably, to their earning capacity. But that part of the increased speculative values which had been consolidated by recapitalisation operations of various kinds, as well as many of the new enterprises floated in the speculative period, remained. When the depression began, therefore, the capital structure of many countries carried this triple burden of investment beyond their real savings, including many unsound new enterprises floated during the boom, of greatly increased debt charges and of watered capital in many re-organised enterprises. Interest rates remained high, and, in addition, there had developed a strong tendency towards the maintenance of equalised dividends. The combination of all these factors strained industrial earnings and severe liquidation was inevitable. The prospect of such liquidation was bound to impose a severe strain also upon the banking systems of many countries.

The Effects of the Depression upon Business Earnings.

There is always a lag between business earnings and their distribution as dividends. In the final stages of expansion, earnings are high, but the dividends reflecting them may not be declared until after depression has set in. When the break comes and industrial prices and output decline, the management of corporate enterprises is directed towards cutting costs and particularly prime costs such as wages. Wage-rates are not immediately or easily reduced under present conditions, but unemployment quickly increases and therefore a part of the burden of the depression falls immediately upon the wage-earners and upon the Governments which contribute to their support. But there is a strong probability that the business profits earned in the previous period of expansion will be distributed even after the depression has set in.[1]

This probability is reinforced by the policy pursued by many conservative and sound enterprises which have built up large reserves in the good years with the definite object of maintaining steady dividend policies in the interests of the small investors. Even in a prolonged depression, reserves may be available for maintaining dividends, and only with reluctance are dividends reduced. In the long run, however, such a serious depression as that which has persisted from 1929 till the present time forces all but the strongest concerns, not only to a reduction of dividends, but to an adjustment of their debts and, in some cases, to a writing-down of share capital.

The dearth of statistical material naturally becomes greater as one attempts to study the most recent period and only fragmentary evidence can be adduced in support of the tentative conclusions stated below. There can be no doubt, however, that business earnings have decreased almost catastrophically in most countries. Thus the net earnings of all business enterprises in Belgium are estimated to have fallen from 4,384 million francs for accounts closed in 1930 to 582 millions in 1932. In Germany, industrial earnings, expressed as a percentage of owned capital, fell rapidly from their peak of 7.2 per cent in 1927 to a loss of 4.8 per cent in 1931. In the United States of America, the net earnings of business corporate enterprises fell from 7,551 million dollars in 1929 to a loss of 1,524 millions in 1931.

These examples may be supplemented by a summary table

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[1] Cf., *e.g.*, the diagram showing such a development reproduced in the *International Labour Review*, March 1933, page 395.

showing for several countries the net earnings of business corporations in the years 1929 to 1932 as a percentage of the base year 1928. Wherever possible, a distinction is made between the earnings of financial and industrial enterprises.

Net Earnings of Corporate Enterprises in Certain Countries, 1928-1932.

(Base 1928 = 100.)

(Indices based on actual net earnings in national currencies.)

Country	Type of Corporation	1929	1930	1931	1932
Argentine [I] :	Business	98	81	61	...
	Financial.	103	96	85	...
	Total	99	83	64	41
Belgium [I] :	Business	116	118	71	16
	Financial	123	161	142	68
	Total	118	128	88	29
Denmark [I] :	Business	104	95	...	...
	Total (incl. Financial)	183	165	...	...
Germany [II] :	Business	84	57	— 66	...
	Financial.	92	65	—295	...
	Total	86	59	—112	...
Hungary [I] :	Industry *(a)*	104	86	62	...
[I]	Total (excluding Financial) *(a)* . .	103	84	61	...
[II]	Industry [1] *(b)* . . .	...	...	40	— 7
Italy [I] :	Business	111	— 4	7*	...
	Financial.	103	57	53*	
	Total	109	7	17*	...
Netherlands [II] :	Business	112	29	4	...
Roumania [I] :	Industry	104	91	76	...
United Kingdom [II] :	Total *(a)*.	103	85*	68*	65*
	Manufacturing and Mining *(b)*	108	90	72	...
	Transport, Distribution *(b)*	104	95	75	...
	Overseas *(b)*	94	66	...	...
United States [I] :	Business *(a)*	111	15	— 22*	...
	Financial *(a)*. . . .	85	— 36	—103*	...
	Total *(a)*	106	19	— 36*	...
	Business *(b)*	118	67	26	—0.3

For sources see following page. — * Provisional.

[I] All companies included in national statistics.

[II] Index calculated by chain method for representative sample of corporations.

[1] It is assumed that the net earnings in 1930 were 86 per cent of those in 1928, when calculated by chain method for representative sample of corporations.

For several of these countries, more detailed information is available showing the movement of profits in the main groups of enterprises. These statistics for the most part refer to fairly representative samples, rather than to complete information covering all corporations. They are sufficient, however, to show that the depression has hit industry, trade and finance rather unevenly both in time and in degree. There are such different factors operating in particular industries in the various countries that no general summary is possible ; but it is not difficult to pick out instances of sheltered groups and of groups which have suffered with exceptional severity. Thus, in the United Kingdom, the relative prosperity of the electrical and motor-car industries, and of certain industries which are largely sustained by the domestic market, is in striking contrast with shipping, shipbuilding and certain exporting industries. In Germany, there is a much larger number of industrial groups which have suffered heavily, but domestic commerce, insurance, public utilities and the lignite industry have survived fairly well, while on the contrary there are heavy losses in shipping, banking, transport, construction and such exporting industries as the electro-chemical group.

Sources of data for individual countries in the table on preceding page.

Argentine : Banco de la Nacion Argentina, *Economic Review*, October 1932, page 91 ; *Revista Economica*, December 1932, page 207.

Belgium : Banque nationale de la Belgique. *Bulletin d'Information et de Documentation*, April 1929 (special number), March 25th, 1930 and 1931, April 25th, 1932 and 1933.

Denmark : *Statistisk Aarbog*, 1931-32. *Statistiske Efterelninger*, 1933.

Germany : *Wirtschaft und Statistik*, second August Heft, 1930-32.

Hungary: *(a) Annuaire de Statistique de la Hongrie*, 1931-32. *(b)* Ungarisches Institut für Wirtschaftsforschung, December 1932, March 1933.

Italy : Societa Italiane per Azioni, *Notizie Statistiche.*

Roumania : *Buletinul Statistic*, 1931-32 ; *Anuarul Statistic*, 1931-32.

Netherlands: *De Nederlandsche Conjunctuur*, March 1932, page 16, December 1932, page 30.

United Kingdom : *(a) Journal of the Royal Statistical Society*, Part IV, 1932 ; Stamp, " Industrial Profits " ; Bank of England, Statistical Summary, July 1933. *(b) Economist*, April 30th, May 7th, 1932.

United States : *(a)* Treasury Department, *Statistics of Income*, 1928-1930 ; Preliminary Report, 1931. *(b)* Federal Reserve Bank of New York, *Monthly Review*, April 1932, 1933.

The figures for Argentine, Belgium, Denmark, Hungary, Italy, Roumania and the New York Federal Reserve Bank's estimates of company earnings are credited to the year in which the accounts were closed, and therefore lag somewhat behind the period during which the profits were actually earned.

The figures for Germany refer to accounts closed in the last quarter of each year, approximately 70 per cent of total earnings, and therefore reflect with fair accuracy the earnings of that year. For the United Kingdom, the estimates are based upon company reports so chosen that their earnings reflect total earnings in that year.

The United States Treasury Statistics refer to the year in which profits were actually earned. The Federal Reserve Bank's estimates therefore should be compared rather with the preceding year's Treasury estimates than with the current year.

In the United States of America, certain industries based primarily upon the expanded prosperity of the boom period — the automobile, film and household equipment groups — together with their suppliers, particularly the steel industry, have suffered heavily.

The statistics quoted in the preceding paragraphs refer to the earnings of already established companies. It is clear that such earnings fell off greatly in the years 1931 and 1932 and that the maintenance of dividend payments upon existing share capital was rendered possible only by drawing upon accumulated reserves. In some countries and in some industries, in most countries, the strain imposed upon such reserves by reduced earnings or actual losses had, by 1932, become so great that reduction of dividends and the writing-off of lost capital was forced in an increasing number of instances.

Since it is probable, as Sir Josiah Stamp has shown, [1] that profits are more closely correlated with production than with any other factor, the almost universal shrinkage of production during 1932 points to a reduction of earnings which will probably be reflected in the statistics of profits that will be declared early in 1933. The possibility of earning a profit upon the nominal capital of existing enterprises depends partly upon the extent to which that nominal capital was adjusted after the previous depression of 1920-21, and also upon the extent to which it was swollen in the years of expansion from 1925-1929. Where reconstruction and writing-down was effective after 1921 and conservative policies were followed in regard to capitalisation and reserves during the boom, the ability to pay dividends during the depression is obviously greater. Where, on the other hand, there was inadequate reconstruction after 1921, or where liberal stock dividends were distributed and inadequate reserves were set aside during the boom, present earnings are far more out of proportion to the nominal capital invested.

The extent to which the decline in the earnings of already invested capital affects the opportunities for profitable new investment is discussed later. Before approaching this subject it is necessary to draw attention to the importance of the dividend policies pursued by existing enterprises.

The payment of dividends, and still more of debt service, has been maintained much more successfully than the statistics of corporate earnings might suggest. This was particularly the case in the first two years of the depression. In the United Kingdom, for example, the dividend distributions in 1930 were greater than, and in 1931 and 1932 approximately as great as, in 1929, when the

[1] *Journal of the Royal Statistical Society*, Vol. XCV, Part IV, 1932.

figures were well above the average of preceding years. In order to achieve this result, however, the proportion of profits placed to reserve fell heavily from 22.3 per cent in 1928 to 7.4 per cent in 1932. There has been the same tendency to maintain dividends by diminishing the amounts set aside as reserves, and by drawing upon previous reserves, in almost every country. This, of course, is one of the objects for which reserves are accumulated in good years, and the policy of large corporations in thus equalising the returns from investment in good years and bad is an important stabilising influence — maintaining purchasing power and encouraging the small investor by offering him greater security for his savings. As the depression persists, however, and the earnings of business enterprises continue to fall while their reserves are depleted, there comes a time when the policy of maintaining dividends becomes impossible in many industries. This is particularly true when industry is heavily loaded with debt obligations.

In the table which follows, statistics are given for a number of countries showing the decline in earnings and the extent to which dividends were maintained in the depression years. It will be seen that there was a tendency for dividends to consume an increasing proportion of business earnings, but the fall in earnings was such that the actual amounts paid as dividends decreased in 1932, and in some countries earlier.

It is clear that, in the later years of the depression, the maintenance of dividends at their former levels has proved impossible for the majority of businesses in most countries. In the first stages of the depression, there was a general feeling that purchasing power should be maintained. Attention was drawn in the *Survey* for 1931-32 to the attempts made to defend wage-rates, debt service and public expenditure.[1] The maintenance of dividends fitted into such a policy and was defended, apart altogether from the financial position of the companies immediately concerned, as a necessary measure to maintain purchasing power and consumption. The regular payment of dividends also contributed to the maintenance of Stock Exchange values for a time.[2] By the end of 1932, however, it was abundantly clear that purchasing power was not being, and could not be, maintained. Drastic readjustments of incomes were inevitable and, among those readjustments, the reduction of dividends had an important place.

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[1] Pages 230 to 232.

[2] A Dutch economist, J. Tindbergen, after investigating a number of Dutch companies over a series of years, concludes that the last dividend paid was the dominating factor in determining share values. Cf. *De Nederlandsche Conjunctuur*, December 1933, page 16.

Business Earnings and Dividends in Certain Countries, 1928-1932.[1]

	1928	1929	1930	1931	1932
Belgium :					
1. Net earnings of corporations showing net income (francs 000,000's)	5,264	6,159	7,043	5,543	3,457
2. Dividend of all corporations as a percentage of 1	55	56	57	64	71
Denmark :					
1. Net earnings of corporations, showing net income (Kr. 000,000's)	157	171	172	...	...
2. Dividend of the same corporations as a percentage of 1	76	77	74	...	...
Germany :					
1. Net earnings of corporations, showing net income (RM. 000,000's)	1,516	1,460	1,053	...	...
2. Dividend of all corporations as a percentage of 1	81	86	87	...	...
Italy :					
1. Net earnings of corporations, showing net income (Lire 000,000's)	3,203	3.445	2,985	(2,221)	...
2. Dividend of all corporations as a percentage of 1	78	80	80	(78)	...
United Kingdom :					
1. Net earnings of manufacturing and mining corporations, showing net income (1924 = 100)	104	113	100	.	.
2. Dividend of the same corporations as a percentage of 1	75	76	79	.	.
3. Net earnings of transport and distribution corporations, showing net income (1924 = 100)	115	120	111	.	.
4. Dividend of the same corporations as a percentage of 3	83	84	86	.	.
United States :					
1. Net earnings of corporations, showing net income ($000,000's)	10,500	11,543	6,321	...	...
2. Dividend of the same corporations as a percentage of 1	63	68	108	...	...

[1] Belgium, Banque Nationale, *Bulletin d'Information* ; Denmark, *Statistisk Aarbog* ; Germany, *Statistisches Jahrbuch, Wirtschaft und Statistik*, the figures refer to the period from July 1st to June 30th of the following year ; Italy, Societa Italiane per Azione, *Notizie Statistiche* ; United Kingdom, *Economist*, April 30th, May 7th, 1932 ; United States, *Statistics of Income*, 1928-1930.

The figures for the United Kingdom and the United States refer to the year of income : for all other countries to the year in which the accounts were closed.

Opportunities for profitable new investment as interest rates and prices fall have, in past depressions, been an important factor in forcing capital reconstruction of existing industries. The greater part of new investment, it is true, proceeds by extension of already established enterprises. In so far as these have strained their earning capacity and depleted their reserves in an effort to maintain dividends upon their share capital, they have been unable to proceed with programmes of re-equipment or to free themselves from their heavy debt charges. In previous depressions, new enterprises have tended to force their established competitors to just such processes of reconstruction, even at the cost of reducing or foregoing dividends or of re-constituting their share capital.

The failure of such new enterprises to emerge up till the present appears to be due to a variety of factors partly connected with the price of investment goods relative to the price of finished consumption goods, but partly due also to general insecurity. For the reasons set out in previous chapters,[1] the discrepancy between the prices of production and consumption goods has constantly tended to widen, so that costs of production have remained high and investment has not been profitable. Moreover, though credit has been abundant and short-term interest rates have fallen to exceptionally low levels, the rates of interest charged upon industrial loans have not fallen greatly. In many countries, the banks have been afraid to endanger their liquidity by extending industrial loans [2] which are not self-liquidating within a short period. In addition, there has persisted a heavy risk premium in consequence of the continued extension of Government interference with industry and trade in an effort to protect existing industries from new or aggravated competition. There has been little incentive to new investment in a world which has multiplied tariffs, quotas, exchange controls and other forms of interference with private initiative.

The failure of new competing enterprises to emerge and force a readjustment of existing businesses is therefore partly due to the pressure upon public authorities from those who are reluctant to face such a readjustment and are able to secure public support to a degree never known in any previous depression. The reluctance to face drastic revaluations of invested capital has been in part due to the combination of factors to which attention was drawn in the preceding sections of this chapter.

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[1] See Chapters II and III. Cf. also *Vierteljahrshefte zur Konjunkturforschung*, 1933, page 210.

[2] Cf. National Industrial Conference Board, "The Availability of Bank Credit", New York, 1932, *passim*, and *Vierteljahrshefte zur Konjunkturforschung*, 1933, page 191.

The greater volume of indebtedness, especially that part of it which was borrowed in foreign countries and came to industry through bank advances, the increased use of debentures and preference shares and the general demand of small investors and financial institutions for continuity of dividends are very important factors in the situation. The plight of the financial institutions and banking systems in many countries, to which attention is drawn in a later chapter, is a further powerful influence in the direction of conserving the existing capital structure.

In addition, however, there must be reckoned the widespread disposition to shrink from the catastrophic solution of the crisis by means of bankruptcy and to invoke the aid of the banking systems and, in certain cases, of the public credit in staving off the hardships which would be involved therein. There has been a disposition to seek a solution along other lines, by monetary action designed to raise the price-level, by protective governmental intervention, or by organisation to restrict and regulate production and trade.

Such solutions had not been found in effective measure by the end of 1932 and, in many countries, the continued aggravation of the crisis had led to a situation in which financial and currency difficulties were beginning to force both a diminution of dividends and capital revaluation. The banking crisis in the United States in February 1933 was the most important example. Large numbers of banks which had strained their credit in extending loans to their customers upon the basis of real estate and industrial security values that proved exaggerated found themselves unable to withstand the panic that set in when their depositors lost confidence. Temporary measures, such as the activities of the Reconstruction Finance Corporation, which might have proved adequate to tide, not only the banks, but some of their customers, over an ordinary depression, were inadequate to save the situation that had, in fact, developed as a result of widespread speculation. Capital reconstruction, both of the banks and of industry in general, proved necessary in many cases.

This example, however important in itself and significant also because of its far-reaching effects, by no means exhausts the consequences that followed from the extreme difficulty of maintaining intact the capital structure that had been built up in the course of the boom. The burden of ownership claims upon the product of industry contributed its large share to the combination of forces that has driven many countries to abandon or restrict the working of the gold standard. A particularly difficult situation has been created where industrial expansion was largely based upon foreign capital and where the inability of

industry to carry the charges thus imposed upon it has resulted in a paralysis, not only of domestic production, but of international financial transactions. The manner in which the effort to discharge foreign debt obligations and, at the same time, maintain currency stability has led to the increased trade restrictions which are throttling international commerce is treated elsewhere, but its obvious connection with the over-capitalisation of industry is relevant here. A further important consequence of the maintenance of existing capitalisation has been the difficulty of reducing the unit-price of goods produced in manufacturing industry and of thereby reducing the discrepancy between the prices of finished goods and raw materials, which is an outstanding obstacle to recovery from the depression. From many points of view, therefore, the disproportion of the claims of ownership to the earning capacity of industry proved a serious obstacle to recovery.

The Plight of Agriculture.

The circumstances under which farming is conducted differ so widely from country to country, and, in particular, between the Old World and the New, that international comparisons are difficult. There is a sense in which farmers in all countries are more fortunately situated than urban workers, because they normally may be sure of at least the elementary necessities of life. But, in the so-called " peasant countries ", this advantage is more obvious than in those where agriculture is highly commercialised and where the farmer conducts a " farm-factory " producing a narrow range of specialised products, relying on his cash income to purchase even food in many cases.

There is a preliminary distinction to be drawn between the countries where the exportation of an agricultural surplus is an important, if not the principal, source of purchasing power in the world's markets, and those countries where agricultural production is essentially for the home market. In the latter case, agriculture is almost always sheltered by protective tariffs, which in recent years have been supplemented by prohibitions, quota systems and other quantitative import restrictions in quite exceptional degree. The following table is perhaps sufficient to illustrate the fact that, in the countries where agriculture is primarily for the home market, the fall in agricultural income has been notably less severe than in the countries where the export market is of dominating importance. It will be clear, also, that the fall in agricultural income in the countries exporting mainly commodities for direct human consumption came later than in that of the countries exporting mainly industrial raw materials.

Gross Value of Farm Production. [1]

National currency (000,000's.)

Season	France	Germany	United Kingdom	Switzerland
	Francs	RM.	£	Francs
	[2]		[2]	[2]
1924 or 1924-25 . .	.	11,100	311	.
1925 or 1925-26 . .	.	11,631	300	.
1926 or 1926-27 . .	.	12,085	288	.
1927 or 1927-28 . .	.	12,879	292	1,395
1928 or 1928-29 . .	.	13,865	293	1,467
1929 or 1929-30 . .	74,990	13,340	294	1,479
1930 or 1930-31 . .	61,770	11,654	273	1,371
1931 or 1931-32 . .		9,889	263	1,403
1932 or 1932-33 . .		8,800	...	1,281

Season	Argentine	Australia	Canada	United States
	$ oro	£ A	$ C	$
	[2] [4]		[2]	[2]
1924 or 1924-25 . .	1,011	279	.	11,300
1925 or 1925-26 . .	868	251	1,709	12,000
1926 or 1926-27 . .	792	257	1,715	11,500
1927 or 1927-28 . .	1,009	259	1,826	11,600
1928 or 1928-29 . .	1,055	257	1,806	11,700
1929 or 1929-30 . .	954	211	1,631	11,900
1930 or 1930-31 . .	614	183	1,268	9,400
1931 or 1931-32 . .	641	177 *	815	7,000
1932 or 1932-33 . .	567	...	712	5,200

Season	Denmark	Irish Free State	New Zealand	Greece
	Kr.	£	£ N.Z.	Drachmæ
	[2] [3]	[2] [3]	[2]	[2]
1924 or 1924-25 . .	1,499	43	77	.
1925 or 1925-26 . .	1,344	38	68	.
1926 or 1926-27 . .	1,038	37	67	.
1927 or 1927-28 . .	1,087	39	77	.
1928 or 1928-29 . .	1,141	40	82	11,268
1929 or 1929-30 . .	1,195	40	72	8,462
1930 or 1930-31 . .	1,133	38	57	7,776
1931 or 1931-32 . .	951	33	50	7,494
1932 or 1932-33 . .	816	...	...	9,393

* Provisional.

[1] Sources : France : *Supplément au Bulletin Quotidien*, July 27th, 1932. There are preliminary indications of an increase for 1931-32.

(For continuation of footnotes, see following page.)

In the first group, where agricultural exports are less important, the fall in agricultural income was of a much lower order of magnitude than in the agricultural exporting communities. Even allowing for differences in methods of calculation, these disparities are certainly significant.

It should be remembered also that, for all of the exporting countries included above, with the exception of the United States, currency depreciation had taken place before the end of 1932. Thus, in New Zealand, the total value of agricultural production, which was at its peak in 1928 at £82 million, fell in 1931 to £50 million ; but the New Zealand £ had also fallen 10 per cent below sterling, or to about two-thirds of its gold parity, so that the value of New Zealand production measured in sterling should be reduced by about 10 per cent.

Broadly speaking, the agricultural communities in dominantly industrial lands have been sheltered by governmental protection and have suffered less from the depression than either their competitors in the agricultural exporting countries or most other economic groups in their own lands.[5]

Those European countries in which agriculture is largely an export industry have been affected with extreme severity in the depression. The Danubian wheat-producing countries may be taken as illustrative. Their situation is universally recognised as presenting one of the most difficult aspects of the agricultural

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Germany : Institut für Konjunkturforschung : *Wochenbericht* V, No. 51. *Konjunktur-Statistisches Handbuch*, 1933.

United Kingdom : Clark, " The National Income ", page 110. " The Agricultural Output and the Food Supplies of Great Britain."

Switzerland : *La Vie économique*, January 1929-1932, February 1933. Preliminary estimates in previous years have proved to be too low.

Argentine : *Revista Economica Argentina*, January-June 1929, page 88, September 1932, pages 155, 159. For 1927, the gross value of agricultural production was estimated to be $ m/n 3,570,000,000, and in the same year the exports, of which 95 per cent are agricultural products, amounted to $ m/n 2,294,000,000.

Australia : *Quarterly Summary of Australian Statistics*, March 1933.

Canada : *Monthly Bulletin of Agricultural Statistics*, March 1933. *Canada Year-Book*, 1931, 1932.

United States : *Agricultural Year-Book*, 1932, Bradstreet.

Denmark : *Statistiske Efterretninger*, January 1925-1933. " Value added " by agriculture amounted in 1924-1926 to Kr. 1,288 million and in 1929 to Kr. 1,128 million, *Nationalokonomisk Tidskrift*, 1932, page 130.

Irish Free State : *Statistical Abstracts*, 1931, 1932 ; 44 per cent of the total agricultural output was exported in 1926-1927, and 49 per cent in 1929-1930.

New Zealand : *Monthly Abstract of Statistics*, January 1933.

Greece : Bank of Greece, " The Economic Situation in Greece ", 1932.

[2] Calendar year.

[3] Exports of agricultural products.

[4] All exports.

[5] Farmers' income in Germany dropped 18.6 per cent from 1929 to 1931, while the national income dropped by 25 per cent (*Statistisches Jahrbuch*, 1932, page 526). In the United Kingdom, the national income is estimated to have been reduced by 12.4 per cent from 1929 to 1931, while farmers' gross income was reduced by 10.5 per cent (Clark : " The National Income 1924-1931 ", pages 70 and 110).

crisis. The heavy fall in the price of cereals, and especially of wheat, together with the closing of their former markets, has gravely reduced farming incomes and driven the peasantry back towards subsistence agriculture. In Roumania, agricultural exports were valued at 172.5 million dollars in 1929 and only 99.1 in 1932, while in Hungary the comparable figures were 181.8 in 1929 and 58 in 1932.[1] The other agricultural countries of Central and Eastern Europe, outside of the wheat belt, have been very seriously affected also. In Greece for example, where agricultural exports average 90 per cent of the total, the value of that total fell from 90.3 million dollars in 1929 to 34.8 million in 1932.

The plight of agriculture in these European lands is paralleled by the difficulties into which farming has fallen in the producing areas outside of Europe — in North and South America, Australia and New Zealand, and parts of Asia and Africa. There is, however, a distinction to be drawn between the situation in those countries where farming is highly mechanised and organised financially upon modern lines, and those where the export surplus consists characteristically of peasant production. In the United States, the Argentine and the British Dominions, farming is a business, in many respects the most important business, of the whole community. The same is true of many tropical areas, such as the Dutch East Indies [2] and Hawaii, where the large-scale plantation system has been developed, or where peasant production has been highly organised for the export market, generally under European or American supervision. The collecting for export of the surplus peasant production in such countries as India and China tends to be less highly organised financially, and a drastic fall of prices, while serious enough, does not normally derange the whole financial structure of the country in quite the same degree. The peasant can usually live upon his holding and, while the diminution of his export receipts impoverishes both him and the commercial structure built upon his prosperity, it does not loom as large in the whole national economy as the similar fall in prices has loomed in countries such as Australia, the Argentine and the United States. It is, however, essential to remember that the depression has brought great difficulty, not only to the dairy farmers of countries like Denmark, to the wheat-growers in the Danubian basin and to the farmers of America and the British Dominions, but also

[1] League of Nations, *Monthly Bulletin of Statistics*.

[2] The total dividends paid by the plantations in the Dutch East Indies to shareholders abroad was, in 1928, 171,000,000 florins ; in 1930, 97,000,000 ; and, in 1931, 17,000,000 florins. *Korte Berichten voor Landbouw, Nijverheid en Handel*, June 17th, 1932, page 620.

to vast multitudes of small farmers, particularly in Asia, who are only dimly aware of the world forces at work. The extent of their difficulty is indicated by the amount of gold which has been given up by the Indian people under the combined effect of a higher monetary price for gold and economic stress.

The strain upon the peasants in heavily populated and poor countries is naturally reflected in the social and political unrest which has been so widespread in recent years. Brought within the network of world trade by initiative from without, the peasants who are impoverished by its breakdown can hardly be expected to understand or be patient under the strain. It is not without significance that years of economic depression should be years of political and social difficulties.

Farmers in the progressive agricultural communities of North and South America, Australia and New Zealand have been hit by the full blast of the depression. The three outstanding reasons for the aggravated nature of their difficulties are that they are organised upon the expectation of continuing development, that borrowed capital plays such a large part in their finances, and that the export market is of overwhelming importance, not only in the determination of their prices, but in the whole national economy. Some of these difficulties they share with farmers in other lands ; but the combination is largely confined to the areas mentioned.

The capitalist organisation of farming in these newer lands is of a type which is quite foreign to Europe. Less rooted to the soil, and with far less regard for tradition, the farmer tends to regard himself less as the custodian of a heritage to be conserved, and more as a business man exploiting to the full the possibilities of the market. Conservation is of less, and speculation of more, importance in his outlook. He will use new methods, mechanical improvements in cultivation, co-operative experiments in marketing and the like, and will avail himself freely of the unusual facilities offered in such countries for borrowing both upon long and upon short term at reasonable interest rates. The whole recent background of farming in these lands, unlike that of Europe, has been one of expansion. Past periods of falling prices and depression are forgotten in the fact that even during such setbacks the frontier was pushed further out, new land brought into cultivation, and the foundations laid for further prosperity. Rising land values, which the farmer-owner in most cases expects to capitalise by selling his holding, have been the embodiment of such prosperity, and the whole financial structure of farming has tended to anticipate and discount such appreciation. The end of a boom period invariably finds the future discounted so heavily that the land is burdened with indebtedness

which would be heavy even if prices and land values were to be stabilised at boom levels, and is quite impossible when such levels give way to more sober valuations. Thus, a recent calculation of the debt situation in the United States estimates the farm mortgage indebtedness as $4,900 million in 1913, $8,232 million in 1921 and $9,500 million in 1929. The peak was reached in 1925, when prices of agricultural produce were at their highest point in the post-war period.[1]

Agricultural Indebtedness in the United States. [2]

	1913	1929	1930	1931	1932
1. Current value of agricultural capital ($000,000,000's)	47.8	58.1	52.7	.	.
2. Mortgage debt ($000,000,000's) . .	4.9	9.5	9.2	9.4	.
3. Agricultural gross income ($000,000,000's)	7.0	11.9	9.4	7.0	5.2
4. Interest on mortgage as a percentage of 3 (per cent)	3.4	4.7	5.8	7.7	10.0
5. All interest expenditures as a percentage of 3 (per cent) . . .	—	5.5	7.0	9.5	12.9

There is a striking similarity of development in the farming situation in all of these newer countries, and land values, depending largely as they do upon export prices in world markets, follow much the same course in all of them.[3]

The natural corollary of " farming for the property rather than the produce market " is a very large use of borrowed capital. The extent of farm indebtedness, either on short or on long term, is not easy to calculate with precision ; but its burden is obviously greater when the prices of agricultural produce have fallen 55 to 60 per cent from the 1929 levels. The average farm family in the United States had a cash income during 1924-1929 of approximately $600 per annum ; but, in 1932, this cash income had fallen below $100. These estimates are for the cash income

[1] Subsequent land speculation in the years 1925-1929 was directed mainly to urban real estate, the indebtedness upon which is estimated to have risen from $15,120 million in 1921 to £33,125 million in 1929. Cf. Lionel D. Edie in *The Iron Age*, January 5th, 1933, page 26.

[2] Cf. *Agricultural Year-Book*, 1932, pages 892, 893 and 912 ; *Bradstreet's Weekly*, 1933 ; Lionel Edie : " New Year opens in Midst of Major Debt Adjustments ", *Iron Age*, January 5th, 1933.

The estimated figures for 1931 and 1932 are based on the assumption that interest expenditures in these two years were the same as in 1930.

[3] Cf., *e.g.*, the diagram illustrating the similarity of the course of land values in New Zealand and the United States of America, between 1914 and 1924. *Economic Record*, May 1927, page 51*(a)*.

remaining after interest and taxes were paid ; but, in view of the great reduction in cash receipts, it is easy to understand why, in a great number of cases, interest and taxes have not, in fact, been paid " because of pressing needs for more than $100 of cash for other purposes. [1]

Land values have shrunk considerably, but not, as yet, in proportion to the fall in income. The mortgage debt, and still more short-term debt, has increased in the depression. The average value of the owner's equity, which, in the United States, had been $8,191 in 1920, fell by 1930 to $5,436, and has since fallen much more heavily. In face of these facts, it is not difficult to understand both the resistance to forced sales and tax distraints which has spread widely in certain States and the serious consequences of the farmers' difficulties upon other parts of the economic structure, notably the banks and the financial institutions which hold mortgages upon rural property.

Accurate up-to-date information concerning the indebtedness of most of the other overseas exporting countries is not available; but preliminary investigations in Canada suggest that farm indebtedness there may be heavier than in the United States of America, and has not decreased in the depression years.[2]

In most of the overseas countries, there was some relief from the rise in sterling prices for a few months after they had followed the lead of the United Kingdom in abandoning the gold standard. In most of them, also, the heavy burden of external indebtedness, expressed in terms of sterling, was mitigated, or at least prevented from becoming heavier, when they were thus cut off from the continuing fall in gold prices. In the case of Australia and New Zealand, as well as in that of Japan, currency depreciation went further than the fall of sterling, and so gave some temporary relief to the farming community, whose prices rose in terms of the local currency, while their costs for a time remained stable or were even reduced. Such relief, however, could only be temporary, and was promptly offset by similar currency depreciation in competing countries.

For certain European countries, sample investigations of farm incomes and expenses are available for 1928-29 in a volume containing the results of national studies collected and published by the International Institute of Agriculture at Rome. [3] From that volume the following summary table has been compiled.

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[1] Cf. John D. Black, " The Agricultural Situation ", *Harvard Business Review*, January 1933.

[2] Cf. Report of the Minister of Agriculture for the Year ended March 1932. Ottawa, 1932.

[3] " Farm Accountancy : Statistics for 1928-1929 ", Rome 1932.

Farm Income, Expenses and Debt 1928-29.

Country	Number of farms investigated	Gross income per hectare (Swiss francs)	Gross expenses per hectare (Swiss francs)	Labour[1]	Depreciation[2]	Interest[3]	Debt[4] as percentage of farm capital
				As a percentage of total expenses			
				Per cent	Per cent	Per cent	
Peasant farms :							
Austria	743	318	352	46.5	5.5	23.4	5.4
Czechoslovakia	228	.	.	.	.	.	13.8
Denmark . . .	599	1,116	1,069	31.8	0.2	14.6	...
Estonia	260	166	187	50.6	7.7	18.4	15.9
Finland	474	348	413	42.3	4.4	25.7	14.1
Latvia	132	147	185	47.1	10.3	15.6	9.5
Lithuania . . .	95	160	206	40.3	9.9	30.8	5.6
Netherlands . .	2,201	1,072	950	26.3	—	34.3	...
Norway	172	944	1,115	35.2	—	24.9	...
Poland	855	340	389	34.1	11.6	34.8	7.3
Sweden	242	500	567	46.7	—	20.6	...
Switzerland . .	504	1,259	1,421	39.7	10.4	24.5	50.1
Large farms :							
Denmark . . .	155	824	779	32.3	0.4	16.1	...
Finland	72	310	383	36.4	5.0	26.8	14.6
Sweden	113	573	638	38.3	—	18.0	...

The figures in this table are subject to the limitations of such sample analyses and may not be wholly typical of farming enterprises in the countries mentioned, since the keeping of accounts usually indicates modern management. The actual qualifications and interpretations to which the figures are subject are detailed in the volume from which they are taken. They are sufficient, however, to indicate a very wide range of variation in the types of farming surveyed. It is notable, for example, that, where productivity is greatest, the amount of credit used is also greatest. Poverty of production and lack of credit go together. It is clear also that, even in 1928-29, actual returns were insufficient in most countries to provide what the farmer regarded as a fair return for his labour and current interest on the capital value of his equity, to say nothing of profit.

Unfortunately, it is not possible to give complete and

[1] Including assessed value of family labour, except in Netherlands.
[2] In the case of Netherlands, Norway and Sweden, depreciation charges are not separately shown.
[3] Including assessed return on own capital.
[4] At date when balance-sheet was closed — viz., January 1st, Austria and Czechoslovakia ; March 1st, Switzerland ; May 1st, Estonia and Latvia, and July 1st for all other countries mentioned.

comparable statistics for later years ; but the course of development in certain typical countries may be followed from other sources. A Danish investigation shows clearly the downward drift.

Agricultural Income and Expenses in Denmark. [1]

Year	Gross income Kr. per hectare	Net income Kr. per hectare
Average 1924–25 to 1928–29	902	104
1929–30	817	135
1930–31	656	13
1931–32	546	— 28
1932–33	509	— 43

One further example may perhaps be cited to show that debt problems are not confined to the newer countries. For Germany, the Institut für Konjunkturforschung has published statistics which may be summarised as follows :

Agricultural Income and Indebtedness in Germany. [2]
RM. (000,000,000's.)

	1913	1929-30	1930-31	1931-32	1932
Farm indebtedness	17.5	11.4	11.6	11.8	11.4
Value of produce sold off the farm	.	9.86	8.69	7.3	6.5
Interest paid	0.75	0.95	0.95	1.01	0.85
Interest as a percentage of gross income	.	9.6	10.9	13.8	(13.1)

Other statistical estimates might be quoted to show the heavy and increasing burden of agricultural indebtedness in European countries. In Poland, for example, the total agricultural debt, which in 1930-31 represented about 25 per cent of the land value of small farms and 40 per cent of larger farms, increased between January 1931 and November 1932 from 4,000 to 4,600 million zloty. Assuming an average interest rate of 13 per cent, a 10 per cent increase of indebtedness is estimated to raise costs

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[1] Landökonomische Driftsbureau : *Undersögelser over Landbrugets Driftsforhold*, XIV. Copenhagen, 1931.
Statistiske Efterretninger, January 5, 1933.
[2] Institut für Konjunkturforschung : *Sonderheft* 26, pages 17 and 18 ; *Konjunktur Statistisches Handbuch*, 1933.

of production on small farms by 4 per cent.[1] In Yugoslavia, also, the total of agricultural debt is officially estimated to have risen from 1,500-2,000 million dinars in 1928 to 2,500-3,500 million dinars in 1931. Unofficial estimates are much higher.[2] In Italy, the agricultural indebtedness at the middle of 1932 was estimated at 9 to 10 milliard lire, while the gross farm income was 25 to 30 milliard lire, of which about 5 milliards went to landowners.[3] The substantial decrease of interest payments in Germany draws attention to one of the most striking recent developments of the agricultural situation — the intervention of the Governments in order to reduce interest charges on agricultural debt.

The variety and complexity of the measures taken by various Governments to relieve the agricultural situation cannot be described briefly. The far-reaching plans of the United States Government are summarised in the final chapter of this volume. In a great number of other countries, measures have been taken to postpone debt claims, give priority to new loans, convert short-term into long-term obligations, negotiate rent reductions, convert fixed money rents into yearly payments depending upon the value of farm produce, and grant tax relief. Illustrations of these measures may be drawn from both European and non-European countries. Thus, in Germany, a new " law for regulating agricultural indebtedness ", passed in May 1933, enables debtors to appeal for special assistance in respect of debts entered into before July 13th, 1931. A bank, savings bank, or co-operative credit association chosen by the debtor can enforce arbitrary conversion of short-term into long-term debt at interest rates reduced to 4½ per cent, and, with the approval of the local courts (Amtgericht), reduce all claims except on first mortgages by as much as 50 per cent. Financial assistance is also provided by the Reich.

In the Netherlands, widespread advantage has been taken of the courts set up to negotiate between agricultural debtors and creditors, and compulsory interest reductions have taken place in Germany, Czechoslovakia, Poland and Latvia. In Denmark, extensive legislation was passed setting up county boards with power to postpone interest and amortisation payments, making provision for new loans and for moratoria on old loans, giving priority to new loans, taking powers to regulate production in pursuance of the new quota agreements, granting tax relief, limiting interest rates, facilitating mortgage conversions, creating a depression

[1] National Scientific Institute of Rural Economy at Pulaway, Economic Section of Small Farms.
[2] International Institute of Agriculture, " The Agricultural Situation 1931-32 ", Rome, 1933.
[3] The Association of Italian Corporations' Business and Financial Reports, 1933.

fund with objects similar to those of the Reconstruction Finance Corporation in the United States, and allowing smallholders to convert their properties into State tenancies.[1] Another form of State assistance in force in the Scandinavian countries consists of the granting of new advances conditional upon prior agreements between debtors and creditors.[2]

It is clear that the impact of a severe depression which impairs the solvency of farm enterprises at once lessens farm credit and checks the flow of capital for agricultural uses. Measures to revive that flow by giving new loans priority over those formerly contracted strike a severe blow at the whole basis of agricultural lending. In many countries, either by legislation or by private contractual arrangements, efforts are now being made to change agricultural finance from a monetary to a commodity basis, both rent and interest being made payable as a share of the value of the annual produce. Such arrangements are now being made in a great number of European countries.

Even the scattered and incomplete evidence cited in this section is sufficient to show that, except in a few countries where agriculture is primarily dependent upon a protected domestic market, the depression has brought extreme difficulty to farming communities. It has not only reduced their current incomes, but, in the newer countries especially, has wiped out the accumulated profits of past years by greatly reducing the farmer's equity in the value of this land. Farm labour has shared in the distress, and the point has been reached where loans upon landed security are so burdensome that re-adjustments and writing-down have in many cases been inevitable. In the process of such writing-down, however, many countries find themselves faced with serious financial and banking difficulties. The Japanese peasant, the Indian producer of jute, the Brazilian coffee-grower, the Malayan rubber-planter, the Hawaiian sugar-grower, the New Zealand dairy-farmers, the cotton-planters of southern United States, are all facing the same problems of inelastic debt charges and record low prices. In face of shrinking incomes, they have made the same almost instinctive effort as their compeers in other lands to surmount their difficulties by increasing production, only to find their incomes shrink further as world markets narrowed and prices fell still lower. In agriculture, as in industry, profits have disappeared under the combined pressure of low prices and heavy fixed charges.

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[1] *Oekonomi og Politik*, March 1933.
[2] International Institute of Agriculture, "The Agricultural Situation 1931-32", Rome, 1933.

Chapter VI.

THE STRAIN ON THE PUBLIC FINANCES.

THE EFFECTS OF THE FALL IN NATIONAL INCOMES.

The central fact concerning public finance during the depression has been the extraordinary difficulty experienced in adjusting public income and expenditure to greatly reduced national incomes. National incomes, using that term to mean the aggregate value of goods and services enjoyed by the whole community, have been considerably reduced in most countries, both in reality and still more in nominal value. The financial transactions of Governments have thus been rendered vastly more difficult. Expenditure has not been easy to reduce, and what reductions have been effected have often temporarily disturbed economic equilibrium. The incomes of Governments, derived largely from taxation, have fallen sharply. Old taxes have not only been affected by the lower income levels, but in some countries appear to have reached the point where further increases in rates are likely to bring a decline rather than an increase in yield. New and elastic sources of taxation have not been easy to find, and, where expenditure has not been easily reduced, a drift towards increasing indebtedness has been inevitable.

The *Survey* for 1931-32 contained estimates [1] of the percentage of national incomes expended by the State in several countries. The percentage naturally varied with the economic circumstances of the countries in question, but in each case had increased substantially as compared with the pre-war period. The statistics available seem to indicate that from one-fifth to one-fourth of the national incomes passed through the Government (including local authorities) budgets. [2]

National incomes have now decreased very substantially, after a long period during which they had increased rapidly

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[1] Page 247.

[2] See also Statistisches Reichsamt, " Internationaler Steuerbelastungsvergleich ", *Einzelschriften zur Statistik*, Nr. 23, page 646.

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with only few and brief interruptions. From 1890 to 1914, for example, there was no single year in which the German [1] or Japanese [2] estimates of national income declined, and, while the trend was not so regular in other countries, it was quite definitely upward. After the war, this trend appeared to be resumed, and even the sharp declines caused by the crisis of 1920-21 were quickly restored. Except in those European countries which had been impoverished by the war and subsequently by inflation, the post-war standard of living was not only higher, but appeared to be improving more rapidly, than in the pre-war period. The immediate post-war crisis of 1920-21 was overcome comparatively quickly. The fall in national income in that crisis was probably greatest in the United States of America, where it was 14 to 15 per cent.[3] By 1925, in practically every country, this setback had been made good.

The fall of national income in the present depression has been much greater. A recent estimate for the United States shows a decline of 53 per cent between 1929 and 1932. [4] In Germany, an estimate for the same period is 39 per cent,[5] and in the United Kingdom 20 per cent. [6] Between the years 1928 and 1931, the national income of Australia is estimated to have fallen by 33 per cent ; [7] the figure for New Zealand was also 33 per cent ; [8] for Roumania 36 per cent. [9] The decline continued in 1932, bringing the Roumanian figure, for example, up to 53 per cent. For the shorter period from 1929 to 1931, the fall was 10 per cent in Norway, [10] and in Italy 33 per cent. [11] The Welder Commission, which reported upon the financial condition of the Netherlands in 1932, regarded 30 per cent as a very moderate and optimistic estimate of the decline in taxable income since 1929. [12] The value of the gross production fell from 1926 to 1932 in Chile from 3,200 million pesos to 2,200-2,400 million, or about 30 per cent,[13] in spite of a depreciation of the currency of about 50 per cent.

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[1] Statistisches Reichsamt *Einzelschriften zur Statistik*, Nr. 24, " Das deutsche Volkseinkommen vor und nach dem Kriege ".
[2] Institut international de Statistique, XXV, 2, Tokyo, 1930.
[3] King " The National Income ", New York, 1930.
[4] *National Industrial Conference Board Bulletin*, February 20th, 1933.
[5] Institut für Konjunkturforschung, " Vierteljahrsheft ", 7. 4. A.
[6] Clark : " The National Income, 1924-1931 ", *Economic Journal*, June 1933.
[7] " Report of the Committee appointed to make a Preliminary Survey of the Economic Problem ", April 1932.
[8] *Canterbury Chamber of Commerce Bulletin*, April 1933.
[9] *Buletin Trimestrial al Institut Roumanesc de Conjunctura*, 1933, 1 and 2.
[10] *Statistiske Meddelelser*, Nr. 10-11, 1932.
[11] The Association of Italian Corporations, " Business and Financial Report ", June 1st, 1932.
[12] Rotterdamsche Bankvereiniging, *Monthly Bulletin*, November 1932.
[13] *South American Journal*, January 28th, 1933.

The dilemma presented to those responsible for the public finances by such great declines in the national income of almost every country arises mainly from the inflexibility of public expenditure in face of declining revenue. While adequate statistics are not available to measure recent tendencies, it is clear that the percentage of national incomes taken for purposes of State has sharply increased. The obvious counterpart of this increase is a great shrinkage of the resources available for private consumption and the provision of industrial capital. If Government receipts before the depression were one-fifth of the total national income, and the national income has since fallen about 40 per cent while Government receipts have remained almost constant, these should now represent almost 33 per cent of the total national income, and the share remaining in private hands would thus have fallen by one-half. Since standards of consumption are difficult to reduce, most of the shrinkage has been concentrated upon the amounts available for the provision of new capital equipment. The strain upon the public finances has been a powerful deflationary factor in the present depression.

Moreover, as will be shown later in this chapter, very important changes in the methods of providing capital equipment seem likely to result from the difficulties of private investors in finding employment for their capital on the one hand and the necessities of Governments on the other. There is a distinct trend in a number of countries towards the promotion of capital expenditure by Governments as a means of securing relief from prolonged unemployment and generally as a means of escape from the spiral of deflation. Such expenditure at present is necessarily made from funds provided by adding to governmental indebtedness, so that the direction and control of investment tends in such cases to pass from private to public initiative.

In attempting to analyse the most recent developments of public finance in important and typical countries, there are unusual difficulties at such a time as the present. Brief reference was made in the preceding *Survey* to some of the more important technical difficulties presented by any scientific study of public finances. [1] The published statements upon which current discussion is usually based need a great deal of detailed analysis and interpretation and usually require a great amount of supplementary information before any reliable estimate can be formed of the true financial position of any particular country. Public accounts are extremely complicated, and those which are most commonly discussed cover only a part of the total receipts and expenditure of Governments. Even if the whole position

[1] *World Economic Survey*, 1931-32, pages 245-248.

were finally revealed by a laborious investigation of all the different accounts, both of central and local Governments and of the semi-detached governmental enterprises and participations, it would be still necessary to consider both the monetary and the general economic situation of the country in question before a true estimate of its financial position could be arrived at. International comparisons offer so many additional complications as to render simple statements extremely unreliable and misleading. Pre-eminently, the problems of public finance constitute a series of national problems to be considered in the light of the economic circumstances of each particular country.

In the discussion which follows, it is impossible to attempt any complete picture either of the problems of single countries or of the international aspects of public finance. It is, of course, a truism that the fall in national incomes which lies at the root of the financial difficulties of so many Governments is largely caused by economic and financial factors which are common to most countries. The fall in prices, declining international trade, currency instability, the burden of excessive debt and international economic disequilibria generally are the central factors of the whole depression. But the methods by which Governments have faced the fall in national incomes vary so greatly that, whatever the ultimate causes of strain may be, public finance becomes primarily a domestic problem.

The most recent developments of public finance are rendered more difficult of analysis by the fact that closed accounts giving a picture of what has actually happened are not yet available in most cases, and will not be available for a considerable time. Final conclusions must be left to future economic historians. The best that can be achieved at the present time is a study of some of the outstanding factors in the situation of important countries as disclosed by the information now available. On the pages which follow, therefore, an attempt is made to single out important recent phenomena and to give illustrative examples drawn from typical cases, rather than to provide either a complete summary or a considered estimate of the total development.

Even this limited task is complicated by the fact, inevitable in such a period of strain, that there have been considerable but subtle changes in the presentation of public accounts. Everyone is familiar with the devices to which individuals are forced at periods of financial embarrassment in order to provide for current necessities. Transfers of resources between different accounts, delayed payments, temporary advances, suspension of commitments and similar devices are both inevitable and legitimate in an emergency; but they greatly increase the difficulty of analysis.

Declining Public Revenues.

In more normal times, when there is a greater measure of private and public prosperity than the world has enjoyed in recent years, the logical approach to any analysis of public finance is by way of expenditure.

But the sources of both the public and private expenditure are the same, and prudent Governments, even in times of prosperity, keep in mind the political and economic limits of taxable capacity. As long as prosperity is general and revenue is therefore buoyant, no more than ordinary prudence is required. When prosperity has given way to widespread depression and revenues are heavily declining, expenditures can no longer be calculated with merely ordinary prudence. In such circumstances, Governments, like individuals, must adjust their notions of necessary expenditure and consider their budgets from the side of revenue. There are at the present time an increasing number of countries where this readjustment of budgetary procedure has been pushed very far. The most powerful financial countries may still maintain " necessary " expenditures either by increased taxation or by borrowing, but even they have greatly revised their definition of what is " necessary ". In many poorer countries, the revision has reached the point where expenditures are allocated for periods as short as a month, after consideration of the resources likely to become available in those periods. The available revenue rather than the expenditure necessary has been the decisive factor in financial policy.

The decline in public revenues during recent years is somewhat disguised by the fact that rates of taxation have been increased, new taxes introduced and methods of collection tightened in many countries. Even when individual taxes are considered, these changes obscure the real position. Some indication of the extent to which Treasury problems have been complicated by the depression may perhaps be gained by recalling some of the statistical estimates contained in preceding chapters of this volume. For example, the total value of world imports fell in 1932 to less than 40 per cent of what it had been in 1929. In many countries the fall was much greater, ranging up to 87 per cent. The decline of Customs revenue was, of course, affected by the imposition of new Customs duties and the increase of existing rates, and it is reasonable to suppose that free imports fell off less than dutiable imports. The decline in Customs receipts might, according to circumstances, have been greater or less than it actually was, if no alteration had been made in tariff schedules. On the other hand, the direct taxation of

individual or corporate incomes would have yielded much lower results than they actually did, both because the average incomes were lower and because a much larger proportion fell within the lower scales of graduation, if rates had not been raised, graduated scales revised, exemptions lowered, allowances reduced and methods of collection improved. When such factors are borne in mind, the declining yields of taxation illustrated below are very significant.

Receipts from Customs Duties, 1929-1932.
National currencies (000,000's).

Country	Currency	Tariff level index in 1925 [4]	Financial year 1929	1930	1931	1932	1932 as a percentage of 1929
Netherlands [1] . .	Gulden	4	72	71	67	83	115
United Kingdom [2]	£	4	120	121	136	167	139
Denmark [2] . . .	Kr.	6	102	108	105	84	82
Belgium [1] . . .	Franc	8	1,319	1,336	1,303	1,556	118
Switzerland [1] . .	Franc	11	277	306	315	322	116
France [2]	Franc	12	4,449	4,785	5,921	4,139[5]	...
Germany [2] . . .	RM.	12	1,095	1,083	1,147	1,106	101
Austria [1]	Sch.	12	286	290	267	230	80
Sweden [3]	Krona	13	154	154	148	138	90
India [2]	Rupee	14	513	468	...	...	...
Canada [2]	$	16	179	131	104	...	...
Italy [3]	Lira	17	3,042	2,427	2,983	2,452	80
Czechoslovakia [1].	Koruna	19	1,387	1,195	1,289	863	62
Hungary [3] . . .	Pengö	23	125	97	80	50	40
Poland [2]	Zloty	23	395	258	157	135	34
Australia [3] . . .	£A	25	29.5	30.2	18.2	18.6	63
Argentine [1] . . .	m $ n	26	424	355	313	286	67
United States [3] .	$	29	603	585	378	328	54
Spain [1]	Peseta	44	665	580	497	528	81

The importance of Customs duties in almost every budget is due, not only to the aggregate of the revenue so collected, but to its elasticity. Additional duties upon imports have always been one of the first lines of reserve upon which Ministers of Finance may call in an emergency. This fact lends additional interest to the statistics quoted above. The countries concerned have been arranged in order of the approximate relative height

[1] Financial year beginning January 1st.
[2] Financial year beginning April 1st.
[3] Financial year beginning July 1st of preceding year.
[4] League of Nations " Tariff Level Indices " (Method B1).
[5] Nine months only ; the figure for the same nine months in 1931 was 4,609.

of their tariff levels in 1925,[1] and the greater elasticity of revenue in the low-tariff countries is obvious. With one exception (Denmark, where trade regulation was attempted by exchange control rather than by raising the tariff), the low-tariff countries have managed to increase the yields from Customs taxation. Where the tariff rates were highest, on the other hand, the shrinkages of revenue, despite very considerably increased duties in many of the countries concerned, suggest that the limits of taxable capacity are being reached or exceeded. Further increases in rates in these countries bring a decline rather than an increase in revenue, at least in present circumstances.

Receipts from Income Taxation 1929-1932.
National currencies (000,000's).

Country	Currency	Financial year					1932 as a percentage of 1929
		1929	1930	1931	1932	1933	
Australia [4]	£A	9.8	11.1	13.6	13.5	10.0*	138
Austria [2] :							
Income tax . .	Sch.	182	181	159	135*	...	
Corporation tax	Sch.	96	79	69	45	...	47
Canada [3]	$	69	71	61	...	...	
Czechoslovakia [2] .	Koruna	1,431	1,161	1,061	1,020*	...	
Denmark [3] . . .	Kr.	68	69	89	62*	...	
France [5].	Franc	14,101	13,587	11,901	...		
Nine months only	Franc	...	...	10,238	7,518	...	62
Germany [3] :							
Income tax . .	RM.	3,026	2,761	2,143	1,333	...	44
Corporation tax	RM.	559	450	304	106	...	19
India [3]	Rupee	167	160	173*	187*	...	
Italy [4] [6].	Lira	3,995	3,754	3,296	2,935*	...	
Japan [3]	Yen	200	201	164*	131*	...	
Netherlands [2] . .	Gulden	87	93	9	78	...	90
New Zealand [3] . .	£NZ	3.5	4	4.4	3.4*	...	
Sweden [4] [7]. . . .	Krona	145	151	164	151	134*	104
United Kingdom :							
Income tax . .	£	237.4	256.1	287.4	251.5	...	106
Super-tax . . .	£	56.4	67.8	76.7	60.7	...	108
United States [4]. .	$	2,331	2,410	1,860	1,057	1,100*	45

* Budget estimates.
[1] Cf. League of Nations " Tariff Level Indices ", Geneva, 1927. There were, of course, considerable alterations of tariffs between 1925 and 1933, and it is possible that the order of the individual countries has changed.
[2] Financial year beginning January 1st.
[3] Financial year beginning April 1st.
[4] Financial year beginning July 1st the preceding year.
[5] General income tax, scheduled income tax, land tax and income tax on movable property.
[6] Income tax on movable wealth and super-tax on income.
[7] Including tax on capital.

The even stronger tendency towards a declining yield from direct taxation is not as easy to illustrate and does not offer the same opportunity for international comparisons ; but the income-tax statistics for certain countries may be used to give a rough indication of the decline. There is always a lag before reduced incomes are reflected in reduced tax yields, but the table on page 167 makes it clear that by the financial year 1932-33 the effects of the depression were being fully realised. The nature and effectiveness of income taxation differs in the countries cited, so that comparisons are invalid. In all there was a definite tightening up of collection methods, and in most the rates and graduation scales were increased at the same time as exemptions were reduced and allowances revised. Nevertheless, the yield fell in the great majority of cases.

Certain additional comments may be made on these figures. The increased revenue shown for the United Kingdom in the financial year 1931-32 was due to the rate being raised from 4*s*. 6*d*. to 5*s*. in the £, and also to the payments being anticipated, so that a greater amount was brought into the receipts of that year. The budget for 1933-34 made certain adjustments in the methods of collection, but did not lower rates. The estimated revenue from income tax in 1933-34 is £229 million and from super-tax £51 million.

In Germany, it will be noticed that the decline in income-tax receipts was more than 50 per cent between 1930 and 1932. This is all the more remarkable because so large a proportion of the tax is deducted from wage and salary payments, which fell from 1,281 million RM. to 745 million RM. The fall in the income tax levied upon incomes from capital investment was from 194 to 45 million RM., a proportion very much closer to that of the decline in the yield from corporation taxes.

The importance of the decline in these major sources of indirect and direct taxation may be gauged by the following table, showing the proportions contributed by various forms of taxation to the total revenue collected by certain countries in 1927-28.

It is obvious that, in face of such heavy declines in the yield from major sources of taxation, great efforts have been necessary to increase the yield from other sources and to devise new methods of taxation. Inevitably there has been a considerable increase in indirect taxes levied upon turnover or consumption, together with new forms of direct taxation in many countries, such as levies upon wages. The effect of increased Customs protection in diverting consumption to domestic products strengthens the tendency for revenue to be sought by taxation of the domestic industries. Despite the increasing rates of new and old taxes,

The Principal Sources of Tax Revenue in 1927-28.[1]
(As percentages of total taxation.)

Country	Customs receipts	Taxes on income and property [2]	Taxes on transfer and turnover [3]	Taxes on consumption [4]
Australia	53	26	—	21
Austria	20	30	25	25
Belgium	11	35	40	13
Bulgaria	30	23	14	33
Canada	43	16	21	19
Czechoslovakia	13	22	27	31
Denmark	25	35	6	35
Finland	57	23	11	9
France	6	34	33	23
United Kingdom	16	57	4	24
India	66	20	0.4	15
Italy	20	40	19	22
Japan	12	33	9	44
Netherlands	11	45	9	35
Norway	36	31	2	28
Poland	16	30	8	42
South Africa	44	42	5	10
Spain	19	30	17	30
Sweden	25	27	11	37
Switzerland	68	13	17	2
Turkey	21	19	6	55
United States	18	67	1	14

there has been a disconcerting decline in the budget receipts. The table on page 170 shows that, in the case of the United States, this decline amounted to more than 45 per cent. Since in one country only among those cited (Belgium in 1930) were there any substantial remissions of taxation in this period, the fall in revenue is wholly due to declines in taxable capacity.

[1] Statistisches Reichsamt : *Finanzen und Steuern*, pages 842-847.
[2] Including death duties, with the exception of Poland.
[3] With the exception of Poland, excluding death duties.
[4] Including net yield of monopolies.

Budgetary Receipts in Certain Countries, 1929 to 1932.
(Excluding proceeds of loans.)
National currencies (000,000's).

Country	Currency	Financial year				
		1929	1930	1931	1932	1933
Austria [1]	Sch.	2,010	2,027	2,009	1,905 *	...
Canada [2 4]. . . .	$	441	350	330	...	...
France [2]	Franc	47,780	45,681	43,102	28,882 [5]	...
Germany [2] . . .	RM.	10,641	10,655	8,953	7,382	...
Hungary [3]. . . .	Pengö	1,483	1,480	1,464	1,229	1,207*
Italy [3 6].	Lira	21,654	20,198	20,545	18,317	18,895*
New Zealand [2]. .	£NZ	25.3	23.1	21.2	19.1*	...
Poland [2]	Zloty	3,029	2,750	2,262	2,002	...
South Africa [4] . .	£SA	30.5	28.5	27.0	29.4*	...
Spain [1]	Peseta	4,225	3,735	3,656	3,886	...
Sweden [3]	Krona	738	784	791	806	795*
Switzerland [1] . .	Franc	396	433	428	420	...
United Kingdom [2]	£	815	858	852	827	...
United States [3] .	$	4,036	4,174	3,319	2,118	2,624*

THE ADJUSTMENT OF PUBLIC EXPENDITURES.

The greater part of the chapter devoted to public finances in the *Survey* for 1931-32 was concerned with the inflexibility of governmental expenditures in the early stages of the depression. It is on the side of expenditure, however, that statistical material concerning public finance is most unsatisfactory and most delayed, so that there is no possibility yet of getting anything like a complete picture of the most recent expenditures in a number of important countries. Closed accounts are the exception rather than the rule for the year just past, and in the discussion of expenditure which follows, therefore, an attempt is made only to draw attention to a few salient developments in recent months.

In the previous *Survey*, attention was focused upon three main groups of expenditure — debt service, armaments, and social services — which seemed of special importance by reason both of their magnitude and of their social and economic significance. Little can be added in this *Survey* to that discussion,

* Budgetary estimates.
[1] Financial year beginning July 1st.
[2] Financial year beginning April 1st.
[3] Financial year beginning July 1st of preceding year.
[4] Consolidated revenue fund only.
[5] Nine months only. The corresponding figure for the first nine months of 1931 was 13,587 million francs.
[6] Payments including those from preceding years, not including issue of coinage.

since new information for the years 1931-32 and 1932-33, during which the strain on national budgets caused real reductions of expenditure, is still scanty and incomplete. There is no reason to repeat here the description of the manner in which these important groups of expenditure developed after the war, but the information already available for the years 1931-32 and 1932-33 is sufficient to suggest certain additions to that description.

The first fact to be noted is that the sharp declines of revenue previously noted, together with an increasingly dangerous budgetary position in most countries, finally forced a reconsideration of expenditures. As the table which follows will indicate, effective reductions were not applied in most cases until the fiscal years 1931-32 and 1932-33. Up to that time, revenue had benefited by the delayed returns, for example, of income tax, reflecting the years of prosperity ; and the depression in any case had not reached the depths to which it afterwards fell. At the same time, governmental schemes to combat the depression and relieve distress seemed more feasible and, in addition, there was a general reluctance to cut important services. The depression entered a second stage, however, with the onset of financial panic in May 1931, and in that second stage the controversies concerning public expenditure as a means of remedying the depression became acute. Before entering upon a discussion of the way in which various Governments have attempted to meet this new situation, it is necessary to tabulate the available information concerning public expenditures. The figures below need to be read in the light of the explanations given in the footnotes. They refer only to expenditures which are included in the general budgets of the central Governments, and not to expenditures included in special budgets, such as exist in many countries for trading enterprises, works and other purposes.

The figures shown in the table are comparable horizontally, but not vertically. Methods of accounting, the proportion between public and private economic activity, and the proportions between the activities of central, regional, local and other public bodies vary greatly from country to country.

The figures in most cases represent estimated or actual cash disbursements, but in some cases they represent pay warrants issued, commitments, or even credits which may be drawn on in subsequent years. The main purpose for which the table is included here is to indicate the general trend of development ; if it is desired to utilise particular figures, the table should be supplemented by the more detailed statistics available in the *Statistical Year-Book*, 1932-33. [1]

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[1] Table 109.

Budgetary Expenditure of Central Governments, 1929 to 1933.
(Amortisation expenditure included.)
National currencies (000,000's).

Country	Currency	1929 1929-30	1930 1930-31	1931 1931-32	1932 1932-33	1933 1933-34
Argentine . .	m $ n	...	1,095	886	839	...
Australia . .	£A	104	104	98	...	...
Austria . . .	Sch.	1,990	2,289	2,331	1,920	1,932*
Chile	$	1,596	1,131	1,027	597	...
China. . . .	$ Ch.	539	714	683	...	...
Colombia . .	Peso	82.2	60.1	47.6	34.8*	40.4*
Czechoslov. .	Koruna	10,275	9,928	12,260	9,319*	8,633*
France . . .	Franc	63,968	53,265	50,641*	41,098*	...
Germany . .	RM.	11,353	11,740	9,555	8,219*	...
Greece . . .	Drachma	18,363	11,180	11,280	8,674*	...
India . . .	Rupee		1,362	1,344*	1,278*	...
Italy	Lira	20,790	25,702	20,164*	20,923*	...
Japan . . .	Yen	1,736	1,558	1,498*	1,944*	...
Mexico . . .	Peso	276	279	299	215	...
Netherlands .	Gulden	909	839	880*	1,116*	...
Poland . . .	Zloty	2,993	2,813	2,866*	2,452*	2,458*
Spain. . . .	Peseta	4,056	3,697	3,855	4,470	...
Sweden . . .	Krona	811	819	894	896*	...
United Kingd.	£	840	881	860	848*	...
United States	$	3,994	4,231	5,007	4,269*	3,975*

* Budgetary estimates.

Argentine : The budget includes expenditure on public works and armament material, covered from loans issued, amounting for 1930 to 207.2 million, for 1931 to 102.5 million and for 1932 to 61.9 million pesos.

Australia : Consolidated Revenue Fund only. Expenditure from Loan Funds amounted in 1930-31 to £71.5 million.

Austria : 1933 ; revised estimates.

Chile : Ordinary budget only ; extraordinary expenditure amounted to 535.1 million and 225 million pesos for 1930-31 and 1931-32, respectively.

Colombia : Ordinary and extraordinary budgets ; for 1932, ordinary budget only. Expenditure of closed accounts represents actual payments.

Czechoslovakia : Not including special funds.

France : Not including the Amortisation Fund (deriving its receipts from the net yield of the Tobacco Monopoly, the yield of transfer taxes, succession duties, etc.) or special accounts. Closed accounts : provisional results according to the situation of the Treasury on the basis of *Comptes d'exercice.* The budget year 1929-30 covers a period of fifteen months, the budget for 1929 having been prolonged for the three months January to March 1930. The budget year 1932 covers a period of nine months.

Greece : The high expenditure figure for 1929-30 is accounted for by the fact that the proceeds and utilisation of various loans, which were not formerly entered in the budget accounts, have been entered in those for 1929-30.

India : The figures relate to the Revenue Account only and exclude the expenditure on irrigation, postal and telegraph services and other capital outlay not charged to revenue, permanent public debt discharged and loans and advances by the Central Government, which — with the exception of a small amount of reimbursements — are covered from fresh loans. The expenditure under the above-mentioned headings amounted to the aggregate sums of Rs. 482.2 million for 1930-31, Rs. 589.9 million

Continued at foot of next page.

This first table does not give a clear picture of the contraction of real expenditure, because amortisation expenses, which fluctuate considerably from one year toan other, are included.

In the table given below, the amortisation expenditure has been deducted and the figures give a clear impression of the contraction of real expenditure.

Budgetary Expenditure of Central Governments, 1929 to 1933.

(Amortisation expenditure excluded.)

National currencies (000,000's).

Country	Currency	1929 1929-30	1930 1930-31	1931 1931-32	1932 1932-33	1933 1933-34
Austria	Sch.	1,922	2,213	2,249	1,888*	1,859*
Czechoslovakia. .	Koruna	9,411	9,484	11,776	8,769*	8,242*
Germany	RM.	10,976	11,006	8,874	7,568*	...
Greece	Drachma	17,042	9,883	10,289	8,650*	...
India	Rupee	...	1,300	1,275*	1,210*	...
Italy	Lira	20,458	21,468	19,644*	20,690*	...
Japan	Yen	1,456	1,285	1,238*	1,684*	...
Netherlands . . .	Gulden	747	863	802*	750*	...
Poland	Zloty	2,877	2,715	1,761	2,346*	2,330*
Sweden	Krona	770	787	855	888*	...
United Kingdom .	£	792	814	827	815*	...
United States . .	$	3,440	3,791	4,594	3,771*	3,240*

* Budgetary estimates.

Inspection of the figures shows that, while estimates only are available in a great many cases and actual expenditure is apt to be greater than estimated, there was an unmistakable downward trend of expenditure in the years 1931 and 1932. The exceptions to this general rule are China, Japan, Spain, Italy, Sweden and the U.S.S.R. Of these countries, China is on a silver standard, with rising price-levels, and has had to

(estimated) for 1931-32 and Rs. 453.6 million (estimated) for 1932-33. Figures for 1931-32 : revised estimates.

Italy : Expenditure figures refer to estimated or actual commitments (engagements).

Japan : Excluding special accounts. Amortisation figures represent amounts transferred to National Debt Consolidation Fund.

Netherlands : Including Loan Redemption Fund and Road Fund. Amortisation includes, in 1929, 100 million gulden, and, in 1932, 299.5 million of extraordinary amortisation.

Poland : 1933-34 budget includes net receipts and net expenditure of special funds, forming a special chapter of the budget.

United Kingdom : Excluding capital expenditure authorised by various Acts, amounting, for 1930-31, to £11.3 million and for 1931-32 to £9.7 million.

United States : Figures refer to General Fund, Special Funds and Trust Funds. Amortisation, 1933-34 : includes $200 million extraordinary amortisation due to estimated repayments from Reconstruction Finance Corporation.

face extraordinary military expenditures. Japan also has had military expenditure and a depreciating currency. In Spain there has been a change of regime. In Italy, the corporative State is so managed as to render the maximum of support to industry in difficult times. In Sweden, the expansion of expenditure has been the result of deliberate policy directed towards a removal of the depression by investment expenditure in the manner described later. The estimates for the U.S.S.R. are in roubles and show a steady increase from year to year.

Armament Expenditures.

When attention is directed to the particular manner in which expenditure has been reduced, statistics are very scattered ; but certain items of information, positive and negative, are available. The table below is summarised from the *Armaments Year-Book*, 1933. The statistics are given in national currencies to emphasise the fact that they are not directly comparable.

Expenditures on National Defence, 1929-30 to 1933-34.
National Currencies (000,000's).

Country	Currency	1929 1929-30	1930 1930-31	1931 1931-32	1932 1932-33	1933 1933-34
Australia . . .	£A	4.4	3.7	3.1	2.9*	...
Belgium . . .	Franc	981	1,216*	1,404*	1,052*	...
Bolivia. . . .	Boliviano	9.2	8.7*	9.3*	...	...
Brazil	Milreis	445	490	411	416*	496*
Bulgaria . . .	Leva	1,078	1,036	1,054*	982*	...
Canada . . .	$C	21	23	18	14*	14*
Chile	Peso	237	209	165	125*	...
China	$(silver) (Yuan dollar)	245	312	304	...	...
Cuba	Peso	12.7*	12*	10.1*	9.8*	...
Denmark . .	Krone	50	46	45	43*	...
Estonia . . .	Kr.	18	18	16	16*	...
France. . . .	Franc	10,969	11,600	12,022*	9,965* (9 mths)	11,910*
Germany. . .	RM.	691	681	617	678*	...
United Kingd.	£	99	95	92	89*	93*
India	Rupee	504	495	471*	425*	...
Italy	Lira	5,016	5,644	5,208*	5,194*	...
Japan	Yen	495	443	407*	659*	...
Netherlands .	Gulden	75	77	79	73	65*
Poland. . . .	Zloty	866	778	763	840*	829*
Spain	Peseta	1,003	889	906	771*	...
Sweden . . .	Krona	138	130	125	122*	102*
United States.	$	701	699	702	663*	616*

* Budgetary estimates.

Payments on Account of Public Debt.

Great changes are taking place in the expenditure for debt service in the various countries ; but it is impossible to summarise these changes in simple formulæ. The circumstances of every country are different. From the incomplete table printed in the following section, it will be seen that, in most countries, the total amount of public debt tends to increase, in some cases quite heavily. This is inevitable in a period during which revenues have fallen and expenditures have been difficult to reduce. But there are great changes in the distribution of the debt — for example, as between long- and short-term and as between foreign and domestic debt. These changes obviously alter the budgetary position, since they affect the annual cost of debt service, which is the most important practical consideration.

It is the actual payments on account of debt service in each year which are most significant, and the tables on page 176, reproduced from the League of Nations *Statistical Year-Book*, 1932-33, summarise the information available on this point for a number of typical countries.

As in the preceding tables, the main purpose for which these figures are given is to indicate the general trend. If it is desired to examine more closely the position of any particular country, it is essential that the more detailed statistics and explanatory footnotes contained in the *Statistical Year-Book*, 1932-33, [1] should be consulted. This caution applies particularly to the division made between interest payments and amortisation. The statistics given below include, as far as possible, the total amount of service corresponding to the outstanding debt, but in many cases they include only the charges upon the budget and not the expenditure effected by means of special funds. In most cases they include the allocations to sinking funds, not the redemptions effected by those funds. Where debts have been converted, the amount converted is shown under redemption, except where floating debt has been repaid by raising other floating debt.

There are great difficulties in interpreting the table, however, and, even with the definitions and qualifications given in the *Statistical Year-Book*, it must be used with the greatest possible caution. All the figures are taken from the official accounts of the countries concerned ; but, in the present circumstances of fluctuating exchange rates, controversies concerning the gold clauses in debt contracts, moratoria, suspensions of amortisation

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[1] Table 110.

Annual Debt Service (Interest and Amortisation Payments) of Certain Countries, 1930 to 1933. National currencies (000,000's).

Country	Currency	1930-31		1931-32	
		Interest	Amortisation	Interest	Amortisation
Argentine	Peso	232.0		241.3*	
Austria [1]	Sch.	88.8	74.9	125.0	81.7
Australia	£A	58.2	7.9	58.1*	
Brazil	Milreis	654.2*		782.6*	
Canada	$C	121.3	3.7	121.2	3.3
Czechoslovakia	Koruna	1,800.0	633.5	1,608.1	941.7
France [1]	Franc	13,194.9*		10,946.4*	
Germany [1]	RM.	248.1	734.2	253.0	681.1
Hungary	Pengö	54.6	53.9	53.0*	34.9*
India [1]	Rupee	503.4	61.5	535.5*	68.9*
Italy [1]	Lira	4,603.1	4,233.7	4,512.9*	520.4*
Netherlands [1]	Gulden	99.7	76.7	96.3*	78.0*
Norway	Krone	83.7	38.2	83.4*	27.1*
Poland	Zloty	165.7	98.9	210.4*	104.7*
Portugal	Escudo	440.4*		296.4*	
South Africa	£S.A.	10.5	1.0	10.3	0.7
Sweden	Krona	82.4	31.9	81.3	38.6
Switzerland	Franc	109.9	19.9	97.0	41.5
United Kingdom	£	291.9	66.8	287.6	32.5
United States [1]	$	610.8	440.1	599.3	412.6
U.S.S.R. [1]	Rouble	257.2	207.2	287.8	120.5
Yugoslavia	Dinar	1,016.9*		1,220.3*	

Country	Currency	1932-33		1933-34	
Argentine	Peso	296.1*		...	...
Austria [1]	Sch.	116.3*	76.4*	119.4*	72.1*
Australia	£A	51.7		...	...
Brazil	Milreis	802.7*		693.8*	
Canada	$C	134.0*	3.5*	...	...
Czechoslovakia	Koruna	1,599.0*	561.7*	...	...
France [1]	Franc	9,168.4* (9 mths)		...	...
Germany [1]	RM.	286.7*	651.4*	...	...
Hungary	Pengö	62.1*	35.6*	...	...
India [1]	Rupee	548.2*	68.2*	...	...
Italy [1]	Lira	4,836.3*	233.5*	...	...
Netherlands [1]	Gulden	86.9*	366.2*	...	...
Norway	Krone	89.3*	32.1*	...	...
Poland	Zloty	169.7*	106.1*	...	...
Portugal	Escudo	353.7*		...	...
South Africa	£S.A.	10.9*	0.7*	...	...
Sweden	Krona	91.7*	8.0*	...	...
Switzerland	Franc	90.2*	41.3*	...	...
United Kingdom	£	276.0*	32.5*	...	...
United States [1]	$	695.0*	498.1*	725.0*	734.0*
U S.S.R. [1]	Rouble	1,000.0		1,330.0	
Yugoslavia	Dinar	1,558.7*		...	

[1] *For footnotes, see following page.*

and interest payments, defaults and transfer difficulties, it is all but impossible to compile statistics which will give an accurate description of the true situation. This is particularly the case regarding that portion of the public debt services payable in foreign countries. For example, the interest and capital repayments from such a country as Australia are payable partly on account of domestic debt, the interest on which has been reduced by a great conversion operation in 1932, partly on account of debt originally contracted in London and New York, mainly in terms of sterling. In January 1931, the exchange rate on London dropped from 10 per cent to 25 per cent below sterling, and when the United Kingdom abandoned the gold standard the Australian currency was still kept at 25 per cent below sterling. It is obvious, therefore, that the amount in Australian currency necessary to discharge the debt service payable in sterling has been considerably increased.

The Australian case is comparatively simple, but illustrates the necessity for close study of the particular circumstances of each individual country. When the much greater complexity of the debt and transfer situation — for example, in many European countries — is considered, the necessity for detailed studies in each particular case becomes more obvious.

Very important adjustments of debt service are in process. Some of the elements in that process can be mentioned, but it is impossible as yet to ascertain their ultimate effects. It is too soon even to judge whether the net results of conversions, interest reductions, compositions and defaults on the one hand,

* Budgetary estimate.

[1] *France :* Budgetary charges only, excluding service effected by Amortisation Fund and by Treasury.

Germany : Debt service incomplete, as it excludes : (1) service of foreign loan, 1924 (interest and amortisation indistinguishable) : 87 million RM. in 1930-31 ; 80.4 million in 1931-32 ; 79 million (estimated) for 1932-33 ; (2) service of 5 ½ % International Loan, 1930 : 79 million RM. (estimated), 1932-33.

India : Foreign debt in sterling has been converted at the rate of 1 rupee = 1*s.* 6*d.*

Italy : Amortisation, 1930-31 : chiefly conversion of seven-year and nine-year Treasury bonds into 5 % consolidated (Littorio) debt and nine-year Treasury bonds. Diminution in amortisation, 1932-33, is due to non-provision for payment to Amortisation Fund on account of domestic debt ; corresponding estimate for 1931-32 : 300 million lire.

Netherlands : Amortisation, 1932, includes extraordinary amortisation, 299.5 million gulden.

United States : Amortisation, 1933-34, includes extraordinary amortisation of $200 million due to estimated repayments by Reconstruction Finance Corporation.

Union of Soviet Socialist Republics : Figures under 1930 (1930-31) refer to 1929-30 (October 1st to September 30th). Following figures refer to calendar year.

and the contracting of new debt on the other, will raise or lower the future burden of public indebtedness. Each country must in this respect be considered separately. But it seems clear that, in strong financial countries such as the United Kingdom, Belgium, the Netherlands, and also in several of the British Dominions and in India, where there has been firm control over the public finances, the ultimate result of the cheapening of interest rates is likely to be a considerable relief to future budgets. There has been budgetary relief also from compulsory reductions of domestic interest rates in many countries, including Australia, Bulgaria, Czechoslovakia, Germany, Greece, New Zealand and Poland. Apart from the relief given directly to the budgets, the lowering of the interest upon other forms of lending tends to make Government finance easier. This relief should be clearly distinguished from that gained by temporary suspensions of sinking funds and amortisation payments, which, however justifiable in an emergency, merely postpone the payments due and spread them over a longer period, with some ultimate increase in total cost. The position is not yet clear in France, where in the earlier phases of the depression it was possible to continue the policy of reducing foreign debt and also to convert part of the domestic debt. Subsequent budgetary difficulties, however, have caused an increase in the floating domestic debt and have prevented any further conversions.

In a great many other countries, including such strong financial Powers as the United States, the weaker budgetary position may result in substantial increases of debt service.

As against this tendency for domestic debt to increase wherever recent budgets have not been brought into equilibrium, there must be placed the reductions of debt service in many countries which have been unable to launch fresh loans on either the domestic or the foreign market.

Investment Expenditures and Public Works.

From the foregoing discussion, even though the information available is incomplete, it is obvious that there has been great difficulty in reducing the main items of expenditure. Armaments and debt service have been substantially maintained. Little new information is available concerning expenditure on social services. It is known that the scales of expenditure have been reduced in many countries, but the totals remain high. In almost every country there has been a considerable pressure to reduce ordinary administrative expenses. Civil service salaries have been reduced, in many cases more than once, the services have been re-organised

and reduced, and economies have been made which amount in the aggregate to large sums.

Perhaps the most considerable economies have been made, however, in investment expenditure and in public works. While such economies are not general and, in particular, are definitely challenged in a few countries which have deliberately embarked upon policies of expansion based upon borrowed money, they have formed a large part of the savings made in public expenditure in most countries. Thus, in the United Kingdom it has been estimated that the capital expenditure by the Government and local authorities on public works fell between 1929-30 and 1932-33 by 35 per cent. [1] Expenditure on housing, roads and school buildings fell substantially, and only expenditure on electrification steadily increased.

Many other examples could be given of severe economies in capital expenditure during the depression. In Australia, for instance, where the building of roads, railways and bridges depends largely upon borrowed capital, and equally in many European and Latin-American borrowing countries, the reductions were very heavy. Thus, in Australia, the Commonwealth loan expenditures for works fell from £8.7 million in 1927-28 to £2 million in 1930-31, and in the Australian States from £35.6 million to £12.7 million. [2] In Italy, the expenditure on public works fell from 2,048 million lire in 1928-29 to an estimate of 1726 millions in 1931-32. [3]

Those countries which pursued contractionist policies also reduced this item of their expenditure very drastically. In the Netherlands, in 1931, 66 million gulden were invested in public works and transport ; in 1933, only 35 million gulden. [4]

On the other hand, there were several countries which, in the later stages of the depression, deliberately embarked upon policies of increased capital expenditure on public works as a remedy for unemployment. The most definite example is that of Sweden. For the financial year 1933-34, budget provision was made for an increase of capital expenditure from 116 to 243 million krona, of which 160 millions is devoted to new public works, and a deficit was forecast of 242 million krona, to be covered chiefly by the flotation of new loans. In order to facilitate a comparison of the figures involved in this new public works programme, the main budget items of recent years have been tabulated.

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[1] Royal Institute of International Affairs, " Monetary Policy and the Depression ", Oxford University Press, 1933, page 92.
[2] *Commonwealth of Australia Official Year-Book*, 1932.
[3] *Bolletino Mensili de Statistica.*
[4] Rotterdamsche Bankwereeniging, *Monthly Bulletin*, 1933.

Swedish Government Expenditure 1928-29, to 1933-34. [1]
Budget estimates, krona (000,000's).

	Closed accounts				Voted estimates	Draft estimates
	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34
Effective expenditure	701.2	702.1	733.7	765.8	772.5	738.2
Repayment of debt .	24.6	40.9	31.9	38.6	8.0	47.5
Total	725.8	743.0	765.6	804.4	780.5	785.7
Revenue receipts . .	732.4	778.5	782.9	736.5	765.8	787.6
Balance	+ 6.6	+ 35.5	+ 17.3	— 67.9	— 14.7	+ 1.9
Capital outlay . . .	65.8	68.1	52.9	89.5	115.6	243.4
Balance	— 59.2	— 32.6	— 35.6	—157.4	—130.3	—241.5
Covered by proceeds of loans	46.2	22.2	41.9	68.2	97.2	236.6
Covered by Treasury balances	13.0	10.4	—	89.2	33.1	4.9

A special feature of this Swedish experiment needs to be mentioned. It is realised that borrowing for expansion of public works involves governmental as distinct from private provision of capital equipment. The loans proposed, therefore, are to be repaid within four years, mainly by the imposition of heavy new increments to the death duties.

The first instalment of borrowing for this purpose was a loan of 50 million krona and any amount subscribed in excess of this figure, offered for public subscription in April 1933. The terms of the loan were 4 per cent interest, issued at 97 and redeemable between 1934 and 1938 ; but these terms were not regarded as sufficiently attractive, and only 30,900,000 krona were subscribed.

Finland, also, has planned an expenditure in 1933-34 of 350 million marks to be obtained by borrowing and used for public works. [2] Czechoslovakia plans also to float a big loan at 5 per cent in order to carry out a programme of capital construction for the relief of unemployment. The subscription to that loan amounted to 2,000 million koruna.

The largest experiments in this direction, however, are apparently to be taken by the United States Government. In the early stages of the depression, public works were maintained

[1] " Bilaga til Statsverkspropositionen för 1933-37" ; cf. [G. Myrdal : " P. M. Angaende verknirgana på den ekonomiska konjunkturutvecklingen i Sverige av olika åtgärder inom den offentliga hushalluingens område, Bilaga III, till Statsverkspropositionen för 1933-34 ".

[2] *Bank of Finland Monthly Bulletin,* December 1932.

on a large scale, but a contractionist policy was later followed. Immediately upon taking office, however, the new Government launched a programme of legislation involving various schemes for the promotion of trade recovery and unemployment relief. The most important of these measures was the introduction of the National Industrial Recovery Act, which came before Congress on May 17th and combined a comprehensive project of industrial regulation with a $3,300 million public works plan. The Act is divided into two main parts; the first has for specific purpose " the encouragement of national industrial recovery and the fostering of fair competition ". Part II concerns public works projects to be undertaken either by the Federal Government or by States and municipalities. Except in the case of highway construction, for which $400 million is allotted, grants to local authorities must not exceed 30 per cent of the cost. To finance the programme, bonds are to be issued to the maximum amount of $3,300 million, and provision is to be made for a sinking fund of 2½ per cent of the amount issued. Clauses were inserted by the House of Representatives calling for an increase of income-tax receipts, an extension of taxes to corporate dividends and a Federal petrol tax. The powers conferred by the Act are limited to a period of two years.

In the United States, it is noticeable that this expansion of the investment expenditure has been accompanied by considerable reductions of other expenditure. Reductions in the latter are expected to save $1,000 million or more a year.

Balancing the Budgets.

Popular interest in the financial position of central Governments is usually centred in their general budgets and accounts, and the deficits which are the subject of parliamentary and Press discussion as a rule relate only to the deficits of those budgets and accounts. On the other hand, the meaning of those deficits is different in the various countries. To begin with, the deficits under discussion are not always cash deficits and do not, therefore, constitute an immediate drain on the existing Treasury balances, but in some cases represent differences between claims and liabilities or even commitments which will to some extent affect the Treasury balances of future years. Further, they may mean, in some cases, the failure of tax and other revenue proper to meet the requirements of the administrations which are included in the general budget. In other cases, they may mean the demand on the Treasury after provision has been made by realisation of State assets or even by raising funded

loans. On the other hand, the requirements of the administrations include expenditure on repayment of debt, or on advances or loans granted — expenditure which has an influence on the financial balance as a whole. In some case they include amounts which are in reality surpluses to cover deficits of previous years.

The budgets and accounts, therefore, need careful and minute analysis before the true financial position in either its narrower (cash deficit) or its broader (financial deficit) sense with regard to the general budget can be established.[1] The table on page 183 shows, for a number of countries, the balances of the budgetary accounts as indicated in the official documents, but after deduction of proceeds of loans and utilisation of Treasury cash balances.

These figures may be supplemented by the fuller information given in the *Statistical Year-Book*, 1932-33, and should be read with the detailed notes given there.

Such calculations, however, are far from disclosing the whole financial situation of any particular Government. The existence of many other accounts than those usually included in budgetary statements of revenue and expenditure renders necessary a much more extended investigation in each particular case. Such investigations, comprehending not only the general budget accounts but also special accounts — such as for autonomous State undertakings like railways, the deficits in respect of which are in some cases directly covered by the Treasury ; or special accounts of amortisation funds and other capital expenditure, such as that on public works or, especially in recent times, on financing vast schemes for relief of distress in various economic branches in the different countries — demand for any country an extensive analysis of data scattered over a great number of different documents. In previous editions of the *Statistical Year-Book*, and in the *Survey* for 1931-1932, such calculations have been made in an attempt to estimate the total result of the year's financial transactions upon the financial situation as a whole. The final figures which appear in such calculations, however, are so different from those usually published as to lead to misunderstanding which it requires a great deal of explanation to avoid. They are, in any case, not available this year, and therefore it should be emphasised again that the table given below, while based entirely upon official information, should not be taken as representing the net financial situation of the public accounts of any of the countries cited.

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[1] It is interesting in this connection to note that certain countries *(e.g.,* Denmark) are endeavouring so to organise their budgets that the results may show the economic position (increase or decrease of the net property of the State) rather than the financial position only.

Surplus or Deficits of Budgetary Accounts, including Amortisation Payments. [1]
(Closed accounts.)

Country	Financial year	Surplus or deficit: National currency (000,000's)	Surplus or deficit: As a percentage of receipts
Austria	1929	+ 20	+ 1
	1930	— 262	— 13
	1931	— 322	— 16
Czechoslovakia .	1929	+ 169	+ 2
	1930	— 275	— 3
	1931	— 3,128	— 34
Germany. . . .	1929–30	— 712	— 7
	1930–31	— 1,085	— 10
	1931–32	— 602	— 7
Greece [2]	1929–30	+ 143	+ 1
	1930–31	— 9,626	— 91
	1931–32	— 1,453	— 15
	1932–33	— 4,224	— 51
Italy	1929–30	— 1,532	— 8
	1930–31	— 4,469	— 22
	1931–32	— 4,586	— 23
Japan	1929–30	— 200	— 13
	1930–31	— 189	— 13
Netherlands . .	1929	— 47	— 5
	1930	— 44	— 5
	1931	— 146	— 21
New Zealand . .	1929–30	— 1.6	— 8
	1930–31	— 3.6	— 17
Poland	1929–30	+ 37	+ 1
	1930–31	— 64	— 2
	1931–32	— 206	— 9
Sweden	1929–30	— 29(29.3)	— 4 (3.7)
	1930–31	— 33(32.5)	— 4 (4.1)
	1931–32	— 116	— 15
Switzerland . .	1930	+ 6.7	— 2
	1931	+ 2.3	— 1
United Kingdom	1929–30	— 25	— 3
	1930–31	— 23	— 3
	1931–32	— 8	— 1
United States .	1929–30	+ 180	— 4
	1930–31	— 853	— 26
	1931–32	— 2,885	— 136
U.S.S.R.	1928–29	— 568	— 8
	1929–30	— 643	— 6
	1930–31	— 3,043	— 15

For footnotes see following page.

The growing deficits have to be met, and one way is the realisation of existing State assets. The other is the raising of loans. The realisation of State assets, excepting Treasury assets proper, is, however, in most cases included in the receipts before any deficit representing a demand on the Treasury becomes apparent. The realisation of Treasury assets, without at the same time having recourse to borrowing, is necessarily limited lest the Treasury should be deprived of indispensable working funds. A few examples will illustrate these facts.

After deducting the proceeds of loans from the deficits, as shown in the preceding table, the balance representing the demand on the Italian Treasury was 1,142.9 million lire for 1929-30 and 463.3 million lire for 1931-32 ; whereas, in 1930-31, the proceeds from loans not only covered the budgetary deficit, but brought 365.2 million lire to the Treasury, so that the net deterioration of the Treasury position at the end of the three years was 1,241 million lire. This deterioration was represented by an increase in the Treasury liabilities (floating debt, current accounts, etc.) from 5,558.1 million lire to 9,374.1 million lire (*i.e.*, by 3,816 millions), against which there was an increase of the Treasury assets from 1,062.1 to 3,637.1 millions — *i.e.*, by 2,575 million lire. There was, in other words, a net increase of the Treasury liabilities by 1,241 million lire.

The Swedish deficit accumulated during the last three years amounted to 178 million krona, of which 132 millions were covered by loans, leaving a final demand on the Treasury of 45.6 million krona, which resulted in a diminution of the cash balance from 166 to 120.4 million krona.

In Greece, the accumulated deficit of the last four years amounted to 15,159.8 million drachmæ, of which 12,915.7 millions were covered from loans, leaving a demand on the Treasury of 2,244.1 million drachmæ. The balance between Treasury assets and liabilities, which stood on March 31st, 1933, at 4,027.8 million drachmæ to the favour of the Treasury, was thus reduced to 1,783.7 million drachmæ, and the cash in hand from 532 to about 160 million drachmæ.

Another indication, though not an exact measurement, of

Notes to table on previous page.

[1] Cash amortisation expenditure included ; loan receipts excluded. For further explanation, see table in the section on " The Adjustment of Public Expenditures " in this chapter.

[2] The above results represent receipts and disbursements during the twelve months of a financial year without consideration as to whether they belong to the current budget or to the preceding budgets, to the budgetary accounts proper or to the arrears accounts (see Table 5*b* of the Financial Committee's report on the Financial Situation of Greece (document C.387.M.194.1933.II.A).

changes in the financial situation may be obtained from the statistics which show the growth of public debt. There is a fairly general tendency for debt to increase, and this obviously indicates that deficits, after deducting the portion which is due to repayment of debt, are being covered by fresh borrowings.

The totals of debt shown in the table on the following page indicate, as a rule, the nominal amount of capital outstanding. This, however is sometimes difficult to calculate, particularly when the debt service is in the form of annuities which do not distinguish between interest and amortisation. In some cases, the figures, as indicated in the official statements, indicate the gross indebtedness, and, in other cases, the net indebtedness after deduction of sinking funds and securities withdrawn but not yet cancelled. As in the preceding table, the statistics are not comparable internationally and are given merely to indicate the general trend of development. They cannot be used to indicate the financial situation of any particular country except after careful examination of their exact meaning as disclosed by more detailed information.

Examination of this table, however, shows that the total amount of the public debt (excluding the debt of regional and local authorities) increased during the depression in all the countries cited except France, where there was a substantial decrease in the debts owed abroad, offset in some degree by an increase in the floating domestic debt. The major part of this decrease took place in the financial year 1931-32, when the French Government continued its policy of buying French bonds issued abroad.

The increase of total public debt in this period was small in the United Kingdom and also in Australia, India and New Zealand.

More complete information is available, covering fifty-seven countries, in the *Statistical Year-Book* of the League of Nations for 1932-33. [1] The statistics there given divide the debts of each country into foreign and domestic debt and the latter into funded and floating debt. [1] The most cursory examination of these statistics will indicate the multiplicity of forces at work. For example, many of the weaker financial countries have found it impossible to contract new long-term loans in foreign markets, and very difficult to raise domestic long-term loans, but have increased their floating indebtedness both on foreign and on domestic account.

[1] Table 111.

Public Debt in Certain Countries, 1929 to 1933, at the End of the Financial Year. [1]

National currencies (000,000's).

Country	Currency	Month in which the financial year ends	1929	1930	1931	1932	1933
Argentine :		XII					
Total . . .	Peso		3,050	3,374	3,634	...	...
External . .			1,071	1,210	1,066	...	...
Australia :		VI					
Total . . .	£A		1,104	1,101	1,156	1,188	...
External . .			572	574	599	602	...
Austria :		XII					
Total . . .	Sch.		1,866	2,229	2,262	2,991	...
External . .			..	2,092	2,031	2,226	...
Belgium :		XII					
Total . . .	Franc		52,305	52,742	52,629	...	...
External . .			27,668	26,766	25,629	...	...
Canada :		III					
Total . . .	$C		2,647	2,545	2,610	2,832	...
External . .			481	423	519	491	...
Chile :		XII					
Total . . .	Peso		2,688	3,242	3,310	3,869	...
External . .			2,289	2,483	2,431	2,827	...
France :		III					
Total . . .	Franc		468,512	482,179	480,821	459,746	...
External . .			179,847	202,306	197,781	175,430	...
Germany :		III					
Total . . .	RM.		8,972	10,375	12,089	12,137	12,247
External . .			901	854	3,306	2,215	3,065
India :		III					
Total . . .	Rupee		10,745	11,365	11,604	12,150	...
External . .			4,718	4,882	5,170	5,079	...
Italy :		VI					
Total . . .	Lira		88,942	89,876	93,178	97,268	98,418
External . .			1,808	1,774	1,736	1,696	1,653
Japan :		III					
Total . . .	Yen		5,831	5,959	5,956	6,187	6,741
External . .			1,451	1,447	1,479	1,473	1,391
Netherlands :		XII					
Total . . .	Gulden		2,727	2,681	2,877	...	...
External . .			—	—	—	—	—
New Zealand :		III					
Total . . .	£NZ		264	267	276	282	...
External . .			154	151	159	...	...
Poland :		VI					
Total . . .	Zloty		4,079	4,079	4,428	5,041	5,054
External . .			3,799	3,694	3,988	4,593	4,514
Sweden :		VI					
Total . . .	Krona		1,835	1,801	1,846	1,795	...
External . .			—	—	—	—	—
United Kingdom :		III					
Total . . .	£		7,621	7,596	7,583	7,648	...
External . .			1,085	1,074	1,067	1,091	...
United States:		VI					
Total . . .	$		16,931	16,185	16,802	19,487	21,426
External . .			—	—	—	—	—
Union of S. Africa :		III					
Total . . .	£SA		244	250	257	264	...
External . .			151	156	161	160	...

[1] Book value without regard to foreign exchange fluctuations.

The figures given above for total indebtedness, therefore, include several different kinds of debt. Strong financial countries with good credit may cover budget deficits and raise money for capital expenditure or special purposes by floating long-term loans. In recent years, the possibility of floating such loans on foreign markets has practically vanished; but domestic loans have been floated by countries whose citizens retain confidence in their Government's credit and have reserves.

Short-term loans such as those obtained by the issue of Treasury bills may also be used, and there is evidence that this method has been considerably extended both in countries where such bills have long been familiar and by the creation of a bill market in countries like Australia.

Weaker financial countries with limited possibilities of borrowing may have to resort to advances from their Central Banks. An examination of the Central Bank loans to Governments will, however, show that considerably increased borrowing from Central Banks up to the end of 1932 has been the exception rather than the rule.

Countries which have incurred extraordinary expenditure on frontier disputes are among those which have most increased their indebtedness to the Central Banks. In Peru, where the Government at the end of 1931 had no Central Bank debt, this item amounted to about 180 per cent of the note circulation at the end of 1932. In Bolivia, the obligations of central and local Governments amounted in 1929 to about 10 per cent of the note circulation, and by the end of 1932 was about 190 per cent. The Japanese Government's debt to the Bank of Japan amounted, in 1930, to only about 15 per cent of the note circulation, but at the end of 1932 this had risen to 45 per cent.

Exceptionally important increases also took place in Russia, where the Government debt to the State Bank in 1928 was less than 15 per cent, but has since increased to about 75 per cent at the end of 1931; and in Chile where the amount was 3 per cent of the note circulation in 1928 and 135 per cent at the end of 1932.

In most other countries the budgetary position has not yet led to any pressure on the Central Banks, and some Governments have even been able to reduce their obligations to these institutions.

The course of the budgetary deficits may at first sight appear to have much in common with the events which led to the currency difficulties in the years immediately after the war, but it should be emphasised that public finance is not, in this depression, such a dominating factor in the creation of currency disorder as it was then.

On the other hand, this analysis has stressed the fact that

the balancing of the budgets is a problem of increasing importance and difficulty, as Treasury reserves and taxation capacity become exhausted and borrowing possibilities diminish.

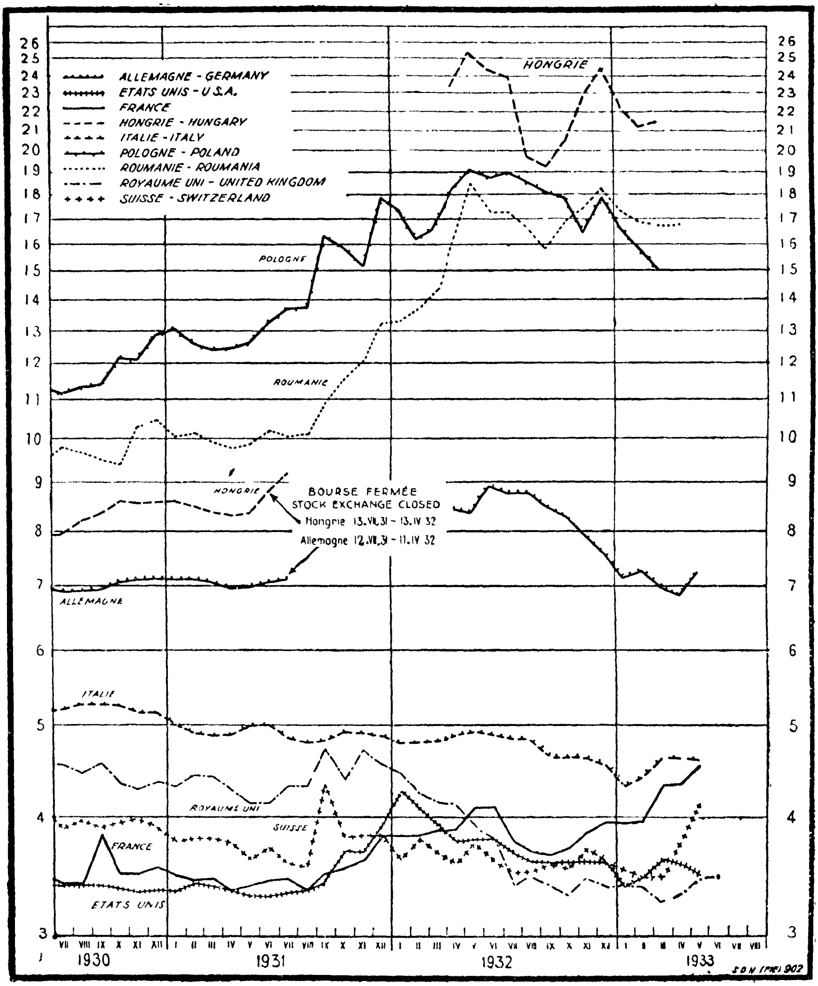
In the countries whose reserves of taxable capacity had been largely exhausted by economic difficulties extending over many years, borrowing capacity was low also, and the depression has therefore driven them to very drastic controls of expenditure in order that the resources of their Central Banks might not be overstrained by advances to the Government Treasury. The plight of these weaker countries illustrates the sequence of events by which the public finances of a country become a source of economic danger in a long-continued depression. The inflexibility of expenditure causes first a search for additional revenue and then resort to the loan market. If the budget cannot be balanced before taxable and borrowing capacity show signs of exhaustion, the Government is forced to get advances directly from the Central Bank. Once this position is reached, care has to be taken lest the Central Bank's reserves be so weakened as to induce distrust of the national currency. If such distrust becomes widespread and there is a flight from the currency, either externally by the purchase of foreign exchange or internally by the purchase of goods, monetary inflation is a real danger. The bank's reserves against credit withdrawals need to be protected either by issuing inconvertible money or by limiting the right of withdrawing deposits. Only the firmest control both of the banking and of the budgetary situation can check inflation once this stage is reached.

This sequence of events has been set out rather as an indication of the important consequences that hang upon the achievement or maintenance of budgetary stability than as a description of what has happened or is likely to happen. Such a sequence, varied as it may be in individual cases, is well known after the experience of the post-war inflations, and those countries which have already suffered in this way are likely to strain every nerve to prevent a repetition of the experience.

The diagrams which follow continue, for the year 1932 and the first months of 1933, the similar diagrams reproduced in the *Survey* for 1931-32. They show the price of long-term capital which Governments have to pay in national markets and in the London capital market. It is striking to note the considerable improvement which has taken place during the last year, and especially for those countries which have access to the London capital market. In order to appreciate this improvement, it may also be of interest to notice the activity of the different bond markets given in the table below. The increased number of sales will undoubtedly facilitate new issues.

Actual Percentage Yield of Certain Bonds or Groups of Bonds.

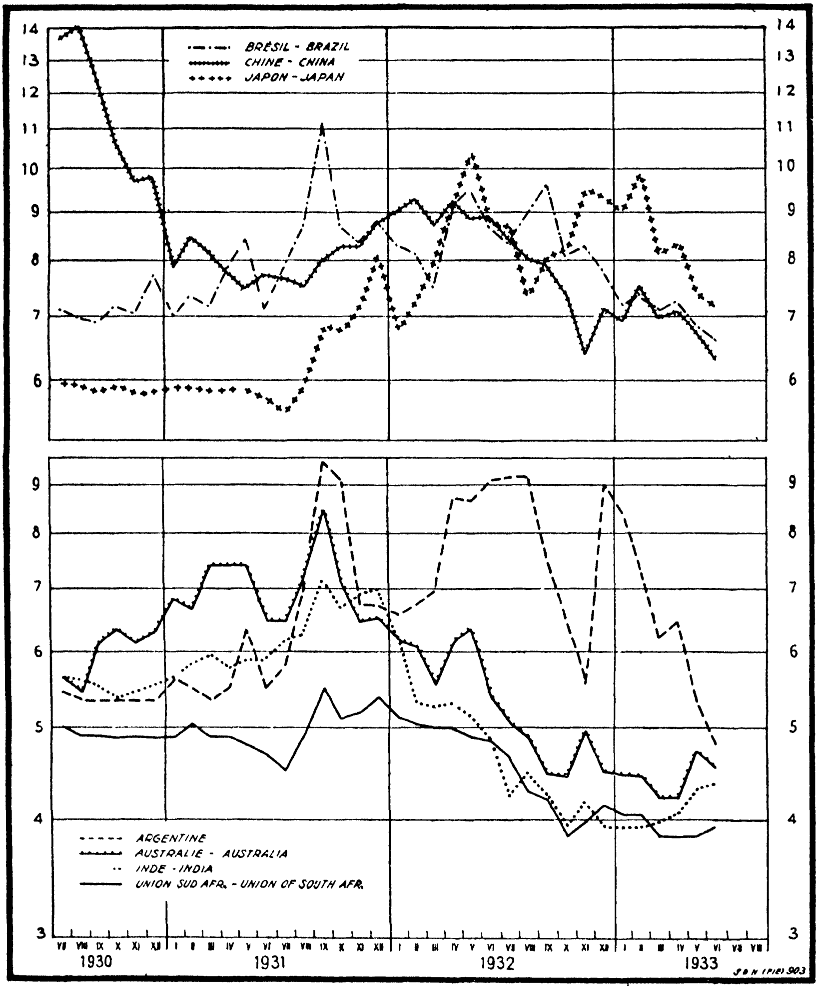
A. According to Domestic Quotations. [1]



[1] France : Rentes perpétuelles 3 %.
Germany : Miscellaneous bonds, 8 % and less.
Hungary : Forced Loan 1924, 5 %.
Italy : Rentes, 3 ½ %.
Poland : Miscellaneous Government bonds.
Roumania : Government bonds.
Switzerland : Railway bonds.
United Kingdom : Consols, 2 ½ %.
United States of America : Treasury bonds.

Actual Percentage Yield of Certain Bonds, or Groups of Bonds.

B. According to London Quotations.[1]



[1] Brazil : 5 % Funding, 1914.
China : 5 % 1913 Re-organisation Loan.
Japan : 6 %, 1924.
Argentine : 4 % Rescission.
Australia : 5 % Registered.
India : 3 ½ % Government stocks.
Union of South Africa : 5 % inscribed.

Stock Exchange Turnover of Bonds, 1932-33.[1]

Country	Bonds	Unit of turnover	1932 I	II	III	IV	V	VI	VII	VIII	IX
Argentine	Central Government	$ (000,000's)	23.2	18.3	21.3	27.0	21.3	21.4	20.5	20.5	24.8
	Provincial and municipal	$ (000,000's)	5.0	2.4	3.5	6.2	4.3	4.7	3.6	4.2	3.6
Czechoslovakia	All	Number of sales (000's omitted)	14.7	13.3	8.7	9.8	9.1	9.5	7.1	15.6	25.0
France	Oblig. and rentes	Quantity sold 1931 = 100	67	63	64	65	119	102	138	105	336
Germany	Gross sale of German bonds	RM. (000,000's)	39	24	17	25	21	19	31	25	37
Italy	All	Lire (000,000's)	3.4	6.5	4.3	3.8	3.0	2.0	4.2	2.5	15.0
Sweden	All	Krone (millions a day)	1.6	1.5	1.5	0.7	0.5	0.5	0.6	0.7	0.7
United Kingdom	Government and municipal loans	£ (000,000's)	29.2	29.0	37.2	33.5	37.1	38.1	56.7	35.7	38.5
United States	Liberty and Treasury *(a)*	$ (000,000's) (par value)	67.7	54.7	51.3	68.9	86.8	67.0	46.4	25.8	24.4
	All		292.9	222.5	252.7	254.2	261.6	255.8	243.6	344.5	246.2

[1] Argentine : *Banco de la Nacion, Economic Review.*
Czechoslovakia : *National Bank Bulletin.*
France : *Statistique générale de la France, Supplément mensuel du Bulletin trimestriel.*
Germany : *Deutsche Volkswirt.*
Italy : *La Vita Economica, Baramestro Economica.*
Sweden : *Kommersiella Meddelanden.*
United Kingdom : *Economist.*
United States : *A Survey of Current Business ; (a) Standard statistics.*

Stock Exchange Turnover of Bonds, 1932-33 [1] (continued).

Country	Bonds	Unit of turnover	1932			1933					
			X	XI	XII	I	II	III	IV	V	VI
Argentine . .	Central Government	$ (000,000's)	21.7	21.9	26.4	25.2	24.3	34.8	31.7	47.5	...
	Provincial and municipality	$ (000,000's)	2.8	2.6	3.4	2.4	2.4	4.0	2.8	3.9	...
Czechoslovakia	All	Number of sales (000's omitted)	21.4	9.1	10.2	10.4	9.2	8.7	17.8	22.0	...
France . . .	Oblig. and rentes	Quantity sold 1931 = 100	132	85	77	64	77	134	83	93	101
Germany . .	Gross sale of German bonds	RM. (000,000's)	28	26	36	166	69	110	30	22	app.18
Italy	All	Lire (000,000's)	12.2	6.2	9.9	31.7	13.7	16.8	10.1	10.7	18.3
Sweden . . .	All	Krone (millions a day)	0.7	0.7	0.6	0.7	0.7	0.6	0.7	0.9	0.8
United Kingdom	Government and municipal loans	£ (000,000's)	44.2	38.5	32.7	37.2	35.2	39.4	29.2	37.5	36.6
United States	Liberty and Treasury *(a)*	$ (000,000's) (par value)	20.3	15.8	37.4	38.4	45.4	55.2	61.0	38.4	—
	All		189.3	159.4	249.2	263.0	231.5	192.1	271.3	374.0	377.7

[1] For note, see preceding page.

Chapter VII.

INTERNATIONAL TRADE AND COMMERCIAL POLICY.

The Tariff War.

In a previous volume, the story of increasing trade restrictions was carried up to the early part of 1932.[1] The period of tariff warfare which was renewed after a temporary lull at the time of the World Economic Conference in 1927 culminated in the United States tariff of 1930, and the new British tariff of 1931-32; but these events were merely the outstanding examples of a widespread tendency. It is, indeed, difficult to summarise with accuracy the many tariff increases that have recently been imposed, to say nothing of the emergency trade restrictions which are the subject of the following section. The Hawley-Smoot tariff in the United States was the signal for an outburst of tariff-making activity in other countries, partly at least by way of reprisals. Extensive increases in duties were made almost immediately by Canada, Cuba, Mexico, France, Italy, Spain. During 1931, general tariff increases were announced by India, Peru, Argentine, Brazil, China, Italy, Lithuania. In addition, there were increases of duties upon individual items or groups of commodities in most of the countries for which information is available, often on several occasions. When currency instability on a wide scale was unloosed after the United Kingdom abandoned the gold standard in September 1931, tariff increases, like other restrictions on trade, began to follow one another in the most rapid succession. During 1932, there were general tariff increases in the United Kingdom, Egypt, Norway, Japan, Portugal, Greece, Siam, South Africa, Australia,[2] Belgium, Latvia, the Netherlands, the Dutch East Indies, Nicaragua, Persia and Venezuela. Partial

[1] *World Economic Survey*, 1931-32, Chapter X.

[2] On February 25th, 1932, there was a downward reduction of the Australian tariff, followed on October 14th, in accordance with the Ottawa agreements, by an upward revision on about 400 items imported from foreign countries.

increases, repeated several times in most cases, were recorded in practically every country for which information is available. There were some downward adjustments of particular items, but the general trend towards increase was very clear. There was probably never any period when trade was subject to such widespread and frequent alterations of tariff barriers. The tariff warfare naturally fed on itself and has continued to do so as duties have been de-consolidated, treaties have been denounced or allowed to expire, currency instability has led into a maze of new protectionist regulations and private trading initiative generally has given way to administrative controls.

During the first months of 1933, the process continued. Sweden, Norway, Czechoslovakia, Poland, Switzerland, Hungary and the United Kingdom were among the countries which raised their tariffs in whole or in part during the first three months of the year. Germany, having freed herself from certain consolidations of duties established in the Franco-German commercial agreement of 1927, introduced further measures of agricultural protection, and France, in order to restore her trade balance with Germany, at once imposed further quotas on certain German imports. France also took steps to counteract the effects of currency depreciation upon exports from the United Kingdom, from several British dominions and colonies, and Japan. Several British dominions and colonies revised their tariffs in accordance with the Ottawa agreements, reducing some duties on British goods but increasing a larger number upon foreign goods. In the United States the House of Representatives in February rejected a bill to increase the duties on goods from countries with depreciated currencies, but certain duties were raised under the flexible provisions of the tariff.

No mere recital of countries where changes have been made is adequate to convey a full impression of the variety and importance of the new trade barriers that have been erected. Unfortunately, no recent statistical calculations are available to measure the relative effectiveness of different tariffs, and, in any case their usefulness would be diminished at the present time when, in addition to tariffs, quotas and a host of other restrictions interfere with the free flow of trade. An even more serious obstacle to trade than the actual height of tariff rates is the uncertainty to which the continual changes give rise. Treaties which gave some assurance of stable conditions over a period of years have in most cases been replaced by temporary agreements for a few months at a time. Prudent investors are naturally reluctant to risk their capital in enterprises dependent upon foreign trade when there is so little certainty about the conditions upon which that trade may be conducted.

Moreover, when trading agreements and regulations are

in such a fluid state, the temptation to manœuvre for bargaining positions in view of possible negotiations for tariff reductions becomes almost irresistible. The method by which a nation seeks to equip itself for bargaining by imposing, or threatening to impose, higher tariffs which it is, in fact, prepared to abandon by way of apparent concessions is apt in such circumstances to degenerate into a general scramble for tariff increases.

On the other hand, reference should be made to three important recent developments in the field of commercial policy. The first, already noted in last year's *Survey*,[1] is the agreement negotiated by Belgium, the Netherlands and Luxemburg for the general and progressive lowering of their tariffs over a series of years. This agreement, negotiated at Ouchy at the time of the Lausanne Conference and signed at Geneva on February 20th, 1933, is supplemented by two other agreements concerning foreign residence and labour, and concerning fiscal co-operation for the avoidance of double taxation.[2] All three are framed in the spirit of the principles of international economic co-operation worked out in the course of discussions by the League's Committees, and therefore offer a model for the negotiation of wider agreements. Up till the end of April, however, no other country had taken advantage of this Dutch-Belgian initiative.

The second is to be found in the Ottawa agreements between the constituent members of the British Commonwealth and the British Empire. It is essential to separate clearly the fact that the United Kingdom, after December 1931, became a protectionist country from the negotiations subsequently initiated at Ottawa in July 1932. The imposition by the United Kingdom of substantial tariff duties on a wide range of imports, obviously narrowed in a very important degree the freedom of world trade. The effect of that action, and of the subsequent policy of agricultural re-organisation behind the shelter of quotas, has been all the greater because of Britain's traditional adherence to free trade principles for the greater part of a century. But the actual agreements negotiated at Ottawa upon the basis of the new regime may somewhat counterbalance the restrictions on trade. Under the agreements the Dominions undertake to set up Tariff Boards which will duly consider representations from the exporters in the other British countries concerned, thus conceding the principle of mutual negotiation on tariff policy. In many of the Dominions, notably in Canada and Australia, and the

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[1] Pages 308-9.

[2] " Traité de Commerce entre le Royaume des Pays-Bas et l'Union économique belgo-luxembourgeoise " ; " Convention d'établissement et de travail entre les Pays-Bas et la Belgique " ; " Convention entre les Pays-Bas et la Belgique pour éviter les doubles impositions et régler certaines autres questions en matière fiscale ".

Colonies, concessions were made with the object of stimulating inter-Imperial trade. These concessions were accompanied in practically every case by some raising of the barriers against foreign goods, and it is not possible yet to judge from the statistics of a limited period, during which the crisis has been aggravated, as to the net effect on world trade as a whole. In so far as the aggravation of the crisis was partly due to the closing of British markets against foreign goods and to the retaliations thereby provoked, it is probable that the net effect to date has been restrictive. On the other hand, it has been the declared policy of the Government of the United Kingdom to negotiate new treaties with its principal foreign customers starting from the basis of the new Imperial agreements. New treaties were concluded in May with Denmark and the Argentine, a more limited agreement was signed almost at the same time with Germany, and at the moment of writing negotiations are in progress with Japan, Norway and Sweden. The conclusion of these and similar negotiations was recognised as one of the exceptions made by various Governments to the tariff truce arranged as a prelude to the Monetary and Economic Conference.

The treaties already concluded are discussed later in connection with recent bilateral agreements. They are significant of the marked tendency at present towards regulated trade and consist, not only of agreements concerning the duties to be imposed, but of provisions which take into account the new quantitative regulation of trade by means of quotas, and even "take note of" agreements between trade organisations in the respective countries which form an integral part of the bargain struck. Thus, the United Kingdom, which a century ago led the way to free trade on a competitive basis, has now crystallised the modern trend to regulated or planned trade.

The third important development of commercial policy has resulted from the initiative taken by the Roosevelt administration in announcing its desire to lead the way to a worldwide reduction in tariffs. This initiative has been chiefly responsible for the plan of a tariff truce as a prelude to the Monetary and Economic Conference, a truce already agreed to with certain reservations by the main industrial countries.

The Imposition of Emergency Trade Restrictions.

While the tariff war continued unabated during 1931 and 1932, another disconcerting element, new at least in its scope, was interjected into the situation by the rapid adoption in a large number of countries of emergency measures of trade restriction

aimed primarily at direct quantitative limitation of imports, and in some cases of exports. This new protectionism has not taken the place of higher tariffs — import duties, as was shown in the preceding section, are now higher and more flexible than ever. But it has effectively supplemented and completed their restrictive effects. Administrative measures, such as prohibitions, quotas, licensing systems and clearing agreements, have never before been used as a general method of trade regulation except in the altogether abnormal circumstances of the war and immediate post-war years. Particular commodities have been so regulated at certain times, but the wholesale application of administrative controls is new. Moreover, the background of the war and post-war regulations was essentially different from the present circumstances. Instead of there being a world shortage of commodities with a strong upward pressure of prices and widespread inflationary tendencies, the recent restrictions have been imposed at a time when there are heavy accumulations of stocks, very low and falling prices and worldwide deflation. The purposes — and economic background — of the new protectionism in 1931 and 1932 are so essentially different, therefore, that the experience of the past offers little help in analysing their effects and probable development.

In the present section, an attempt is made to distinguish and describe the various forms of trade regulation which have been established, to trace the course of their evolution in the last two years, to weigh their relative importance in restricting world trade and to indicate summarily the main consequences of their application which are already apparent.

It is important in such an analysis to bear clearly in mind the circumstances out of which the new protection arose. The dominant factor in the economic situation up till the last quarter of 1931 was undoubtedly the continued fall in prices, particularly of agricultural raw materials. This fall in raw-material prices continued with few exceptions after the widespread abandonment of the gold standard in the last quarter of 1931 ; but its importance after that date was overshadowed by the currency instability which disturbed international price equilibria and became the major preoccupation of commercial policy. The two main causes for this preoccupation were anxiety on the part of many countries with relatively weak currencies concerning their external balances of payments and the determination of many more not to allow their industries and their agriculture to be sacrificed in an abnormal period of price cutting and exchange dumping.

The first and simplest device employed as a supplement to higher tariffs consists usually of a system by which imports are prohibited except under licence and therefore become

possible only after permission has previously been obtained from the administrative authorities. While in some cases such licensing has not gone far beyond the registering and surveillance of import tendencies, in the majority of countries it has been accompanied by, or has led to, measures of direct control and limitation of the quantities imported. The varieties of procedure by which this result has been achieved are many ; but in essence they derive from the principle of prohibiting imports either wholly or partially in the case of certain specified products. Quota or contingent systems are a variant of the method of prohibition, under which only a stated quantity of specified imports is permitted. There are many differences, even within the same country, in the methods by which quota systems are administered. The fixing of the quota, both in time and among the exporting countries and the particular importers in each country, the surveillance of the system by Government departments, by the associated importers, by a grouping of exporters or by various combinations of these methods, and the manner in which the quotas are varied from time to time have developed according to the particular circumstances of the trades in question.

A more generalised control of imports is maintained in a great number of countries in the form of foreign-exchange control. The Central Bank is given power to impound the foreign exchange derived from export receipts. In the majority of cases, provision is made whereby payments for exports must be deposited with the Central Bank, which is also given power to mobilise as far as possible exchange derived from other sources. Payment for imports is thereafter possible, theoretically, only by obtaining the requisite foreign currencies from the Central Bank, which is, therefore, able to control the external drain upon its reserves and maintain the external parity of the country's money. In practice, the effectiveness of such foreign-exchange controls varies a good deal with the economic circumstances of the particular countries. In some, the invisible items in the balance of payments are so important, and the powers of the Central Bank so limited, that " black " markets quickly develop in which the national currency exchanges at depreciated levels. While, however, the Central Banks are not always able to exercise a fully effective control over their exchange rates and therefore over the quantities of goods imported, the existence of such controls in so many countries has been a powerful factor in compressing the total quantities and values of imports and therefore of exports.

Such direct controls either over the quantities of goods imported or over the means of paying for them are supplemented by a variety of administrative devices which limit importation directly. Prominent among these are new types of sumptuary laws, of which the most important are milling or mixing regulations

stipulating that, in the processes of manufacture, certain proportions of domestic products must be combined with the imported goods. Devised at least partly as a means to protect the secondary manufacturing processes, such as flour-milling, these regulations offer an effective check also to the use of imported raw materials and therefore to the quantities imported. The raising of consular, import and other administrative fees, the increasing severity of legislation requiring marks of origin, the indirect effect of veterinary or similar health regulations, and, in general, the considerable growth of administrative protectionism, add their influence to other forms of restriction.

The combined effect of all this multiplication of regulations has been to change the basis of international trading in many countries from one of individual freedom tempered by tariff restrictions to one in which trade is prohibited except by special permission in certain cases. As the area of control widens and the regulations multiply, the trade that is permissible is not only continuously reduced in volume, but becomes more variable and uncertain. There is little inducement to extend trading enterprise and still less to invest capital in producing goods for foreign markets when the possibilities of utilising such enterprise and investment profitably not only diminish, but are incalculable.

Two by-products of this situation need to be emphasised. The first is an inevitable increase in civil service interference with private initiative. The whole basis of foreign, and indeed of all, trade is the freedom to buy what one wants when one wants it and in the most advantageous markets. The middlemen who organise trade under a system of free enterprise must always be governed in the last resort by the satisfaction of the ultimate consumer. Under a system of controlled trade, the influence of the consumers' desires necessarily becomes less effective. The organised domestic producers are able to present their interests more immediately and effectively than the unorganised inarticulate consumers, and, as the consumers' range of choice is constantly narrowed, there is a strong trend towards a managed economy.

This trend is strongly reinforced by the second consequence of controlled trade — the encouragement to, and even pressure upon, the traders and producers to organise themselves into trade associations through which the controls can be managed. The more strongly organised cartels both of the exporting and of the importing countries are able to secure the lion's share of whatever trade is permissible, and where such cartels do not exist they are in rapid process of formation. The independent producer, both foreign and national, tends to be squeezed out, and the consumer to have his interests, and particularly his liberty of choice between competing products, ignored.

Mention should be made finally of the very rapid increase during 1932 of the various forms of clearing or compensation agreements, both public and private. The latter, which are sometimes described as truck or barter agreements, are a strange phenomenon in the modern age, symptomatic of the extent to which the normal media of exchange have broken down. The difficulty of devising means of payment for trade conducted in the normal fashion by the use of credit has led to agreements, between State organisations or private enterprises, for the bartering of goods against goods. Thus, the Turkish Ministry of Economy and an Austrian tobacco company entered into an arrangement on November 17th, 1932, by which the company agreed to buy, up to the end of June 1933, Turkish tobacco to the value of twenty million French francs, payable in Austrian merchandise. The Swedish Government made a similar arrangement with Greece to import Greek tobacco to the value of $400,000, 20 per cent of which sum was to be written off the Greek debts in Sweden, the remaining 80 per cent being paid for in Swedish goods. Other examples are the compensation agreement between Hungary and Czechoslovakia of December 22nd, 1932, by which 29,000 Hungarian pigs are to be exchanged for 20,000 wagons of Czechoslovak wood fuel, and Hungarian eggs and similar products to the value of one and a-half million crowns are to be paid for by facilities accorded to Hungarian tourists in the Czechoslovak thermal stations. Similar barter agreements might be cited between European and also between South and North American countries. For example, in August 1931, the Brazilian Government concluded an agreement with the Grain Stabilization Corporation and the Bush Terminal Company of New York for the exchange during eighteen months of 1,275,000 sacks of coffee against 25,000,000 bushels of wheat. In consequence of this agreement, Brazil prohibited the import of wheat flour for eighteen months.

Clearing agreements, designed to regulate bilateral trade with individual countries so as to decrease passive balances and bring imports and exports more closely into agreement, have multiplied rapidly in recent months. Such agreements differ from the compensation arrangements just described in not specifying, as a general rule, the barter of particular commodities, but allowing trade to be regulated within certain limits by the ordinary commercial channels. In practice, however, as the new British treaties indicate, there is a tendency for the systems to fuse into a more general form of regulated trade. There are many complications in these negotiations, chief of which arise from the concern of the creditor countries that a reasonable proportion of the exports from their debtors shall be allocated

to the liquidation of existing commercial debt. Thus, one of the earliest series of clearing agreements, negotiated by Switzerland, provided that, in the case of Hungary, one-third of the receipts from Hungarian exports to Switzerland were to be credited to debt repayment until certain outstanding debts were cleared off, and after that one-fourth of the exports were to serve a similar purpose ; in the case of Austria, the proportion was also one-third. Both of these treaties have since been terminated ; but the principle has been applied in other cases, notably a series recently negotiated between Germany and her creditors. The Anglo-Argentine agreement concluded in March 1933 also included provision whereby debts were to be liquidated, in this case by means of a new long-term loan.

There has been much criticism of the clearing arrangements mainly on the ground that, in regulating bilateral trade, they interfere greatly with the triangular trade, which has been important in the past, and reduce the value of world trade as a whole. The source of a country's imports is not necessarily the best market for its exports nor the source from which it draws capital. Attempts to bring imports and exports between particular countries into a closer balance disturb existing marketing arrangements and tend to reduce world trade. It has been shown in the *Review of World Trade* for 1932 that the effect of the various attempts to regulate bilateral balances is already important, and it is probable that their full effect has not yet been achieved. However, the negotiation of clearing agreements continues. In the first three months of 1933 alone, such agreements were concluded by Switzerland with Roumania and Yugoslavia ; by France with Bulgaria, Yugoslavia and Hungary ; by Italy with Roumania and Sweden, and by Germany with Roumania.

It is evident that commercial policy, in this as in other respects, is in a transitional stage. The regulation of trade by means of tariffs which in general apply to all other countries in approximately the same way is being replaced by a more elaborate network of negotiated bilateral treaties, which include quotas and other forms of quantitative regulation, private commercial agreements and financial provisions. The world is moving towards a greater degree of planned or regulated trade. The possibilities of somewhat enlarged trade emerging, as such negotiated agreements bring order out of the existing chaos, have recently appeared to be more encouraging ; but the difficulty of balancing conflicting industrial and financial interests in any negotiation is very great, and there is danger lest the interests of third parties should be neglected in separate bilateral bargains. In view of the existing situation, reversion to the simpler competitive forms of tariff negotiation is administratively and econo-

mically less possible than before the depression encouraged the rapid evolution of varied forms of trade regulation ; but the newer types of agreement, it is recognised, need to be considered in the setting of an international and not merely a national economic situation.

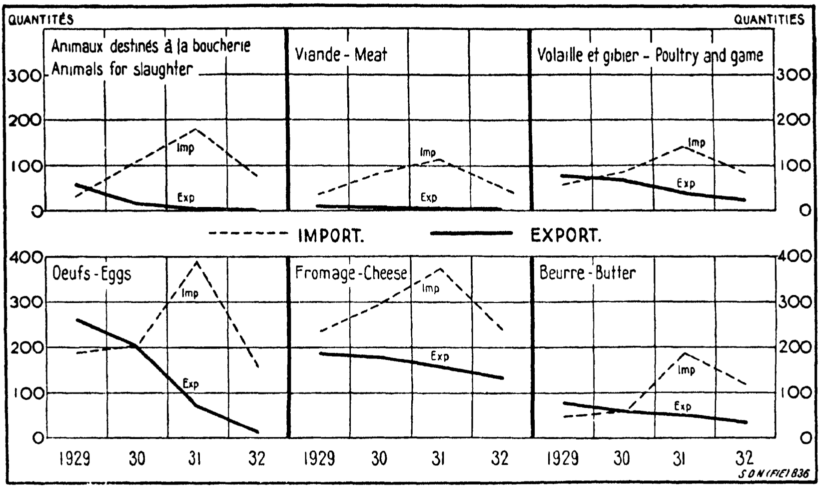
The extent to which quantitative restrictions of trade have been enforced has varied greatly from country to country. The restrictive effect of the measures enforced in different countries cannot, however, be accurately gauged. One country may apply restrictions to a very wide range of goods to a slight extent, another may rigidly control the imports of a limited number of commodities. France affords an example of a country in which the range of goods to which restrictive measures are applied is very large. In the early months of 1933, quotas had been applied to over 1,200 tariff items (about one-sixth of the whole), including many of the chief import groups. It has been estimated that more than one-third of the total value of imports is subject to quotas, and among the commodities affected are cereals, cattle and other farm products, fish, wine, fruits, wood fuel, semi-manufactured cotton and iron products, leather, hides, furniture, stockings, cotton tissues, papers, certain machines, glassware, etc. The import quota allowed varies from commodity to commodity and sometimes from quarter to quarter. There are commodities where the quota is no more than 50 per cent or less of the average quantities imported before the depression. Sometimes these quotas are fixed by the competent Ministry, in other cases the imports to be limited and the quantities permitted are established by agreements between the domestic and foreign producers, ratified by the Government. The restrictions are, at the moment of writing, still being extended to new commodities, a notable recent example being the temporary quotas imposed in 1933 upon about thirty classes of imports from Germany after the de-consolidation by Germany of certain agricultural duties established by the Franco-German agreement of 1927. The general effect of the quotas in checking the strong tendency for imports to increase is clearly shown in the diagram on the next page.

The particular example of France might, if space permitted, be supplemented by similar details concerning other countries. In Italy, for example, there is a quota system affecting imports from countries which impose quotas on Italian goods. In Holland, about one-tenth of the total imports are subject to quotas which, however, are ample in scope ; in Poland, prohibitions mitigated by licensing systems extend to about one-fourth of the total imports ; in Switzerland, an extensive quota system also covers about one-fourth of the imports.

France : Trade in Certain Animal Food Products, 1929-1932.

Animals for slaughter and meat are shown in thousand metric tons, and other products in hundred metric tons.

- - - - Imports. ——— Exports.



One of the most effective systems of exchange control is practised by Germany. From July 1931, when Germany was forced to demand a moratorium for her political debts, all transactions in foreign exchange have been controlled by the Reichsbank. Exporters are required to declare their exports to the bank, which has the right to demand that at least a part of the foreign currencies so acquired shall be remitted to it. Importers draw the necessary means of foreign payment from the bank in accordance with regulations made each month fixing the conditions under which importation is permitted. More or less similar exchange controls exist in a very large number of other countries, covering a substantial portion of the world's trade.

It is unnecessary to give further concrete examples of the actual working and scope of the various forms of quantitative import restrictions. The impression given by tabular statements recording the new measures taken in various countries from month to month is that the range and complexity of such restrictions have constantly increased since the middle of 1931.[1]

[1] Cf. the tabular statements in *World Economic Survey*, 1931-32, pages 319-322, and in *Index*, Vol. VIII, No. 85, January 1933, pages 6-13, with Appendix I of this *Survey*.

Such an impression is supported by more detailed investigation of particular national cases. The frequency of change, the number of commodities affected, the limitations imposed, tend, with few and slight exceptions, to increase. There is, moreover, a strong tendency for such restrictions to perpetuate themselves and propagate others.

It remains to consider the principal ways in which the consequences of the new quantitative restrictions on imports differ from those of tariff increases. [1] In such a consideration it is, however, necessary to emphasise again the important fact that quantitative restrictions supplement but do not replace higher tariffs. In the decline of world trade recorded later in this chapter, it is impossible to separate the effects of the higher tariffs that are constantly being imposed from those of other trade restrictions. All that can be done is to record their combined effects.

But there are certain ways in which the application of quantitative restrictions differs from the imposition of tariffs. Now that tariff policy has become so fluid and commercial treaties are limited to such short periods, tariffs as well as quotas lead to greater uncertainty, which is in itself a restrictive influence. Quotas and similar quantitative controls are perhaps more changeable and give greater powers to administrative officials. But the chief difference between such controls and tariffs lies in the point at which they are applied. An increase in the import duty charged on a particular commodity tends to raise the price at a sensitive point in the wholesale bargaining process. The equilibrium of demand and supply is altered and the tax is diffused by a process of bargaining among all those whose decisions influence prices. Some part of the tax may be shifted back to the producers, some of it may stick with the traders, while much of it is transferred forward to the consumers. In the process of diffusion, all producers, traders and consumers, not only of the product in question, but also of related and competing products, will be affected. The ultimate effects of a new duty are clearly in the direction of raising import prices and reducing import quantities, but the actual degree to which those prices will be raised and quantities reduced, as well as the extent of the divergence created between prices in the exporting and importing markets, varies considerably with the particular circumstances of the commodity taxed, and the general circumstances of the time. But the compensatory adjustments that are always at work in the price

[1] Cf. the discussion of the effects of quotas in France by M. Adéodat Boissard, Inspector of Finance, in *Journal Officiel de la République française*, Annex 24, December 1932, pages 1476 and 1477.

system spread these effects over producers and consumers of a large variety of commodities and over the trade passing with more than one country. A tariff therefore has to be very high before it opens an unbridgeable gap between the prices of the same commodity in different markets, and affects a violent reduction in the quantity of commodities traded. Its effects in these directions are smoothed over by price adjustments that tend to create a new equilibrium.

The new quantitative restrictions, such as quota systems, on the other hand directly limit the imports of particular commodities. From that limitation there is no escape by way of price adjustment — the trade is simply stopped. When such restrictions are as drastic and widespread as they have recently become, the inevitable result is an unprecedented reduction in the quantum of trade. The converse of this reduction is a piling up of commodity stocks despite the extremely adverse price relationships upon which the raw material exporting countries are forced to trade.

At the same time, the various domestic markets are cut off from one another and prices vary between them to an extent that has not been experienced since the development of modern methods of transport and communication. Attention has already been drawn to these price disparities. [1] How far they are caused by the raising of tariffs or by the new quantitative restrictions it is impossible to say ; but, obviously, in default of the existing quotas and similar restrictions, tariffs, to achieve the same effect, would have to be raised very considerably even from their present levels.

Moreover, the effects of such price disparities and quantitative reductions upon the production of a great number of commodities are such as to create an extremely difficult international problem. The pattern of world specialisation has been re-arranged. Industrial countries have fostered their agriculture, in many cases almost to the point of self-sufficiency, while at the same time maintaining and even extending their industrial equipment. Agricultural production in the surplus-exporting countries, on the other hand, has not, in general, decreased but increased, while there is evidence that, in many of these countries, a strong trend to local industrial development has set in. Statistical evidence of these facts has been given in a preceding chapter. [2] In so far as trade restrictions have contributed to this disorganisation of production, they have prolonged the emergency which they were intended to combat.

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[1] Chapter II.
[2] Chapter III.

The Development of Commercial Policy.

During 1932 and the early months of 1933, trade negotiations, almost wholly bilateral in character, occupied an increasing share of the activities of Governments in international affairs. The number of bilateral treaties negotiated has been so great that any short summary of them is impossible in the space available here. Treaties, trade agreements and exchanges of notes, generally of a limited character covering the trade in certain specific commodities for a brief period of time, have followed each other in rapid succession. Not a month passes without the announcement of several new treaties or provisional agreements, most of which refer to specific and often temporary arrangements, generally terminable at short notice, regarding a comparatively few commodities. Such arrangements defy any attempt at brief summary ; but certain tendencies common to most of them may usefully be stated here.

The first fact to be noticed is the absence of multilateral negotiations, except in the cases noted below of regional agreements between countries that are closely connected either by neighbourhood or by economic relations. The circumstances of recent months have been unfavourable to the conclusion of general accords based upon broad principles of international agreement. The Convention negotiated in 1928 for the abolition of prohibitions and restrictions on imports and exports, which had been signed by twenty-nine countries, did not come into effective operation, since nine countries failed to ratify it and twelve of the remaining twenty made their ratifications conditional upon others which were not, in fact, received. Unilateral action continued, but was increasingly followed by bilateral agreements. Treaties or accords were denounced, or tariffs raised ; but in the great majority of cases such unilateral action was followed quickly by negotiations, which resulted in at least provisional agreements with the other countries concerned. More and more the regulation of trade took of the form of specific agreements between particular countries, generally after consultation with, and often after direct negotiation between, the industrial and trading interests in both countries.

The greater number of the bilateral agreements thus arrived at were frankly temporary, short-term compromises reviewable at short notice, designed to make possible the continuance of at least a minimum of foreign trade, but avoiding more permanent commitments until economic circumstances should become more favourable. There was a general disposition to maintain liberty of action for the future, and, indeed, to secure greater liberty

by the de-consolidation of tariffs that had been fixed by former agreements. There were notable exceptions, such, for example, as the treaties negotiated by the Soviet Government with Germany in May, and with France in November 1932. Against this increase of economic co-operation between the U. S. S. R. and other countries must, however, be set the denunciation by the United Kingdom in April 1933 of the British-Soviet agreement of 1930, and the imposition of embargoes both by the United Kingdom and by the U. S. S. R.

New forms of trade bargaining have entered into many of the provisional bilateral agreements. Not only tariff provisions, but quotas and similar arrangements for quantitative trade regulation, purchasing agreements, understandings between organised industrial interests in the respective countries, and financial considerations, such as debt settlements and loan provisions, have been incorporated into the new treaties. While such arrangements were not unknown before the depression, they were the exception rather than the rule. The extent to which they have become the subject of official negotiations is so great as to constitute a development of commercial policy which is likely to exert a profound influence in the future.

Trade negotiations in the past have generally followed the comparatively simple method of bargaining upon tariff schedules, any reductions of duties being extended in most cases to other countries than those immediately concerned by the operation of most-favoured-nation clauses. Industrial organisation, as well as trading and financial arrangements, were affected by such negotiations only indirectly, competitive enterprise being left free to adjust itself to the altered tariff conditions. This freedom of competition, aided by the generalised effect of most-favoured-nation treatment, in practice meant that a country's commercial policy was affected by its whole external trade rather than its exchanges with another country. Little if any consideration was given, before the depression, to the balance of trade between particular countries, and domestic industries were protected against imports in general rather than imports from a particular source.

In recent years, however, the structure of industry and the nature of world trade have been changing considerably. Manufacturing industries are no longer confined to a comparatively few countries. The development of modern industrial organisation and the growth of an international financial system have rendered possible the development of a wide range of manufactures in an increasing number of countries. International trade before the depression had included more interchanges of manufactured goods and depended less upon the exchange of

manufactures for raw materials. To an increasing extent, also, the organisation of production, and particularly of manufacturing production, began to transcend national boundaries. International combines and international firms, facilitated by the increasing ease with which credit could be transferred from one country to another, greatly complicated the working of protective tariffs. The extent to which the export of goods was being replaced by the export of industries is difficult to estimate ; but sufficient information exists to show that it is becoming an important factor in altering the character of international trade.[1]

It is possible that such changes in industrial structure and trading organisation might not have brought any sudden alteration in commercial policy if the depression had not produced such minute and detailed regulation of trade. Since, however, the temporary trading agreements of the last two years have, in fact, attempted to regulate, not only tariffs, but also the partition of markets and therefore the localisation of production as well as the financing of industry and trade, it seems likely that commercial policy in the future will be directed more definitely along such lines than along the older lines of general tariff agreements. Already important new treaties are taking this form.

Two characteristics of these new treaties, exemplified both in the Ottawa agreements and in those recently negotiated by the Government of the United Kingdom with Denmark, Sweden, Norway, Iceland and the Argentine, deserve special mention. There is, in the first place, a clear tendency towards the formation of regional groupings. The extension of the methods followed at Ottawa to negotiations with other countries which have close trade relations with the United Kingdom is characteristic of the process. The French Government is also proceeding actively to plan closer trade relations with its colonies.[2] The Canadian and United States Governments are negotiating a trade treaty upon lines similar to those worked out at Ottawa. In Europe, there are preferential agreements negotiated by Estonia with Finland, Latvia and Lithuania ; the various forms of preferential treatment, first by export premiums and later by quota arrangements, between Austria and Hungary (July 1932) ; the arrangements for mutual export credits and reduced railway tariffs negotiated by Italy with Austria and Hungary ; a preferential agreement between France and Yugoslavia

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[1] Cf., *e.g.*, Frank A. Southard, Jr. : " American Industry in Europe ", Houghton Mifflin Company, Boston, 1931 ; a study of almost 800 subsidiaries in Europe of 220 American corporations.

[2] Cf. *Journal Officiel de la République française*. Annex 24, December 1932, pages 1471 and 1475.

(November 1931) and the Oslo agreement between the Scandinavian countries, the Netherlands and Belgium. More ambitious schemes for regional Customs agreements in Central and South-eastern Europe, such as those outlined at the Stresa Conference, while not yet translated into agreements, indicate the same tendency to regional grouping.

The second characteristic, particularly of the Ottawa treaties, is the tendency to seek agreements for the fostering of " complementary production ". The older free trade initiative took the form of agreement, generally among low-tariff countries, for further reductions of duties the benefits of which accrued to the whole trading world by reason of most-favoured-nation treatment. The new development of commercial policy is based, theoretically, upon a rough planning of industrial development with the intention of discouraging the less and encouraging the more efficient forms of production in each country.

The working out of such principles by a series of bargains between each pair of countries is obviously a laborious and difficult process, especially when it is complicated by financial as well as industrial and trading considerations. The slowness and incompleteness with which bargains are worked out may involve a maintenance of a large part of the existing trade barriers for a considerable time. Moreover, the effort to balance a country's trade as far as possible with every other country renders exceptionally difficult the position of those countries which are most dependent upon triangular trade. It is only by accident that a particular country finds that its best export market is also the cheapest market from which it can import and the most convenient source of its capital supply. There is also, as in all schemes for Government control or regulation, the danger that planning may involve the suppression of private initiative in such a degree as to impair industrial progress. An increased tendency towards cartellisation and a greater degree of governmental control over industry and trade would also seem to be likely if commercial policy should continue to follow this line of development.

Up till the present, the great majority of the new bilateral treaties and trade agreements have continued to stipulate most-favoured-nation treatment ; but, in fact, the scope of such treatment has been greatly modified. Apart from the emergency restrictions such as quotas and exchange controls, which raise new and difficult questions of interpretation, special bilateral or regional treatment has in fact been secured by such methods as the negotiation of industrial understandings which are " taken note of " in the treaties. Exceptions have always been recognised even to the unlimited and unconditional interpretation of the

most-favoured-nation clause, as far as the special cases of frontier trade and of Customs unions are concerned. But, since the Ottawa Conference, the special relations between the United Kingdom and the Dominions have become a more important exception to the rule. The Soviet system of monopolistic trade, and the general introduction of quotas, bilateral clearing agreements and preferential regional treaties are likely in practice still further to modify most-favoured-nation treatment.

The Economic Committee of the League of Nations has given special attention to this problem. The principal conclusions arrived at have recently been embodied in a summary document entitled " Recommendations of the Economic Committee relating to Tariff Policy and the Most-Favoured-Nation Clause ". [1] While strongly advocating the maintenance of the unconditional and unlimited most-favoured-nation clause, and working out principles for its application, the Committee recommends that reservations to such clauses designed to facilitate regional tariff agreements should be considered as consistent with the maintenance of most-favoured-nation treatment in general.

WORLD TRADE IN 1932-33.

The outstanding fact concerning world trade throughout the depression has been the continuous heavy decline both in the total value and in the quantum of imports and exports. This decline is graphically illustrated in the diagram which appears as a frontispiece to the present *Survey*. Only a brief summary of the outstanding characteristics of this collapse of world trade will be attempted in this section. A more adequate and detailed treatment may be found in the *Review of World Trade*, 1932, published by the League of Nations in June 1933. In that volume, there is not only a more complete analysis of the fall of world trade in general, but the circumstances of the majority of important trading countries are reviewed with more complete statistical information than can be given here.

In order to reduce the trade values ordinarily given in fluctuating national currencies to a common base, they have been re-calculated for the League's *Review of World Trade*, 1932, in terms of gold dollars. The following summary table is the net result of these calculations.

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[1] II. Economic and Financial, 1933, II. B. 1.

Total Value of World Trade, 1929-1932.
($000,000's)

Year	Imports	Exports	Total
1929.	35,606	33,035	68,641
1930.	29,083	26,492	55,575
1931.	20,847	18,922	39,769
1932.	13,885	12,726	26,611

These figures show clearly, not only the extraordinary shrinkage of world trade, but the acceleration in the rate of decline from year to year. In 1930, the total value was 19 per cent less than in 1929 ; in 1931, it fell again by 28 per cent, and, in 1932, by 33 per cent, so that, in 1932, the total fall from the 1929 level was 61 per cent. In July and August 1932, the decline was about 65 per cent, compared with the corresponding months of 1929 ; some recovery in raw material prices in the autumn, together with an increase in the quantum rather greater than the ordinary seasonal variation in the last quarter of the year, brought the percentage in that quarter back to the average of the year. The decline was, however, resumed in the first quarter of 1933, preliminary estimates of the monthly average falling to about 35 per cent of the value of trade in the first quarter of 1929.

The comparison between the first quarters of the last four years is given below :

World Trade in the First Quarter of each Year, 1929-1932.[1]
($000,000's)

Year	Total value	Percentage decline from the first quarter of 1929
1929	15,292	.
1930	13,885	23
1931	9,685	37
1932	6,460	58
1933	5,096	65

It will be noticed that the percentages shown in this table are greater than those given above for the years as a whole. The reason is that trade has declined most in those manufactured commodities which are largely independent of seasonal influences.

[1] Special trade of some fifty countries representing over 90 per cent of the total value of world trade. Compiled for the *Monthly Bulletin of Statistics*. These figures are not comparable with the annual estimates previously quoted.

The great bulk commodities which are shifted from country to country after the harvest period always bring up the percentages in the second half of the year. While the prices of these commodities have fallen very heavily, the quantum has been maintained better than the quantum of manufactured products.

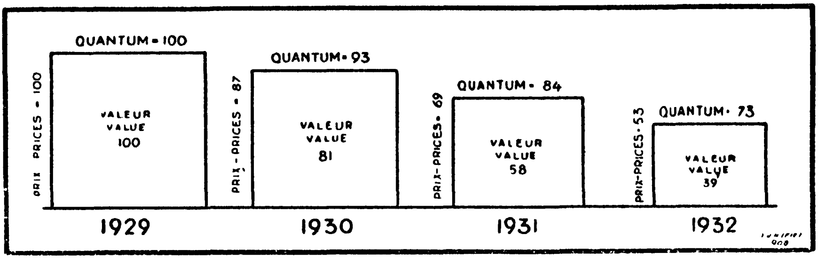
The decline in total values is compounded of these two elements — a sharp fall in prices and a substantial decline also in the actual quantum of goods traded. Both have been continuously accelerating, except for the partial and temporary recovery of prices of certain commodities in the autumn of 1932. Correction of total values for price changes in order to arrive at estimates of the quantum of trade are subject to certain statistical limitations which lessen their accuracy as the base year recedes.[1] The calculations made by the Economic Intelligence Service of the League of Nations indicate that, in 1930, the quantum was about 7 per cent less than in 1929, and that it fell again in 1931 by 9 to 10 per cent and, in 1932, by 14 per cent, the total decline in the quantum for 1932 therefore being 26 to 27 per cent from the levels of 1929. Since, however, the quantities of those goods — agricultural products in particular — which have fallen most in price have not diminished as much as the quantities of other goods, it is probable that the estimates given above understate the fall in the total quantum and overstate the average fall in prices. The true position may perhaps be summarised roughly by the statement that seven-tenths of the goods traded in 1929, changing hands at rather more than half the prices current in 1929, gave a total value of world trade in 1932 less than 40 per cent of the value in 1929.

Such a statement, approximate as it must remain, emphasises the unprecedented shrinkage in the actual quantities of trade passing, a shrinkage primarily caused by the accumulated trade restrictions described in the preceding pages. The combined effects of the fall in prices and in quantum may be illustrated graphically by the following diagram in which prices are measured vertically and quanta horizontally.

It has already been indicated that the greater part of the quantitative decline has taken place in manufactured goods rather than in agricultural foodstuffs and raw materials. The existence of large surplus stocks of commodities, however, is sufficient evidence that the growing restrictions on trade have reduced even the basic interchange of raw materials and foodstuffs to levels that are too low to carry off the production. World agricultural production, it has been shown, has not seriously decreased, but manufacturing production has fallen away very

[1] Cf. *Review of World Trade*, 1932, pages 20-1.

The Fall in World Trade, 1929-1932.

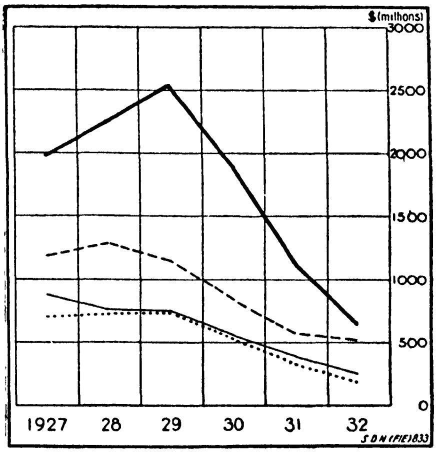


greatly, and it is clear that increased trading restrictions form one of the primary reasons for this decrease. What has been happening, therefore, is a drastic reversal of the processes described in last year's *Survey* as typical of modern economic development before the crisis. Instead of an increasing super-structure of specialised interchange of a growing variety of manufactured products, the world is being driven back to a minimum level of trade in the barest necessities.

The statistics that are available to indicate the geographical distribution of trade confirm this conclusion. It is in the United States, and particularly in the exports of manufactured articles from that country, that the export trade has declined most.

United States :
Domestic Exports by Groups of Commodities.

Recorded Annual Values.



——— Foodstuffs.
– – – – Crude materials.
.... Semi-manufactures.
━━━ Finished manufactures.

The obverse fact is clear also, that the exporting agricultural countries, while on the whole maintaining and even extending their export quantities, have received much lower prices and

therefore have taken less and less imports from the industrial countries. These facts become clear in the following table, which, for the years 1930-1932, shows the percentage decline of import and export values for about forty countries, representing about 90 per cent of the total value of world trade.

The Percentage Decline in Import and Export Dollar Values since 1929.

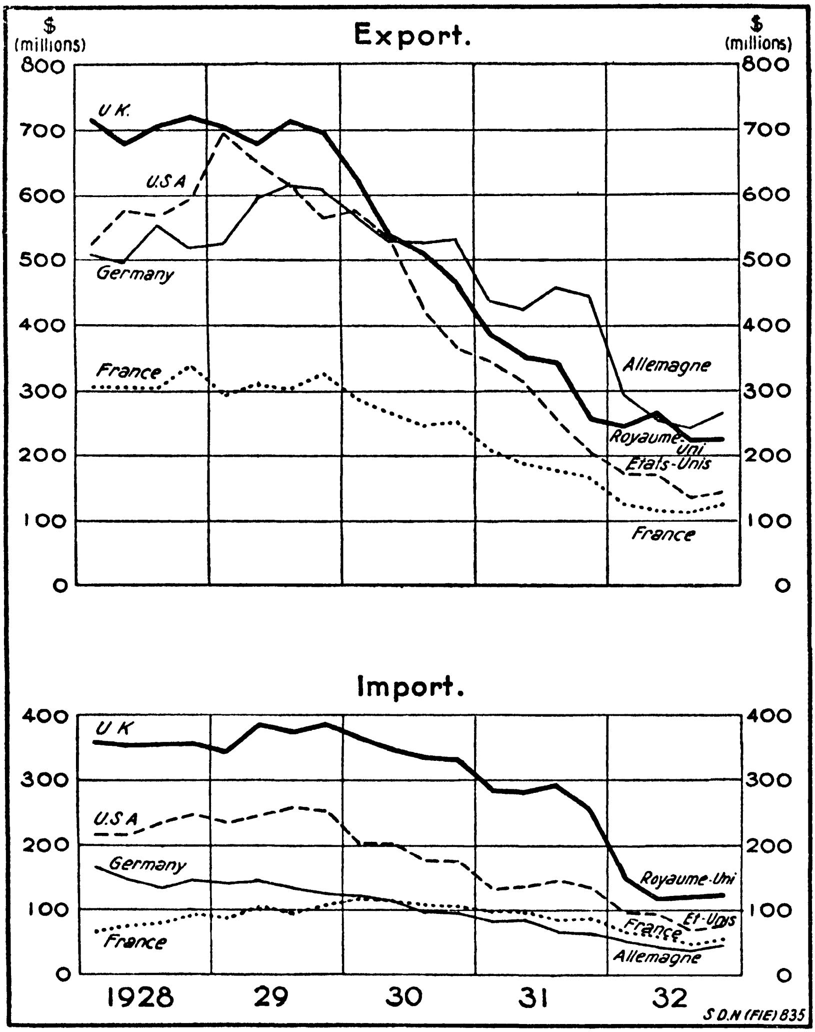
Country	Imports			Exports		
	1930	1931	1932	1930	1931	1932
	%	%	%	%	%	%
Chile	14	56	87	42	64	84
Peru	33	62	78	28	58	67
Brazil	38	65	75	31	48	61
Argentine	25	57	74	43	53	64
Australia	35	72	74	29	47	55
Uruguay	16	32	73	5	51	71
Poland	28	53	73	14	33	62
Finland	25	53	70	16	35	56
Canada	22	53	69	26	49	60
United States of America	28	52	69	27	54	69
British Malaya	20	51	69	29	59	75
Hungary	23	49	68	12	45	68
Mexico	10	50	67	24	41	65
New Zealand	12	53	66	21	46	58
Germany	23	50	65	11	29	58
Austria	17	34	65	16	41	71
Yugoslavia	9	37	65	14	40	64
Egypt	14	47	64	39	53	64
Ceylon	25	49	64	23	48	67
Spain	+11	57	64	+ 9	54.5	65
Czechoslovakia	21	41	63	15	36	64
Italy	20	46	63	20.5	34	57
Greece	21	33.5	62	17	40	61
India	25	49	61	22	53	70
South Africa	22	37	60	14	27	29
Japan	26	41	60	27	44	60
Roumania	22	47	60	2	24	43
United Kingdom	14	34	58	22	50	64
China	26	40	57	37	52	75
Norway	1	25	57	9	43	49
Sweden	7	25	56	15	42	64
Denmark	3	23	55	6	27	53
Belgium	13	33	54	18	27	53
Netherlands	12	31	53	14	34	57
Irish Free State	7	23	50	5	28.5	60
France	10	27	49	15	39	61
Switzerland	5.5	17	36	16	36	63
Algeria	3	17	27	+10	12.5	3
U. S. S. R.	+20	+25	21	+11	14	40

The countries are arranged in order of the magnitude of the fall in imports in 1932. If they were arranged in the order of the fall in exports, many of the industrial countries would come higher, while the agricultural countries would mostly be found towards the bottom of the list.

There is, in addition to this structural difference in economic organisation, a distinction to be drawn between debtor and creditor countries. For the most part, the agricultural exporting countries are also the greatest debtors ; but there are exceptional cases, such as that of Germany, which is primarily an industrial country but is heavily indebted on international account, and that of the United States, which is a great creditor country but maintains also an active export balance with both industrial and agricultural commodities entering into it. Industrial exports have fallen off heavily, while agricultural exports have suffered severe price declines but have been fairly well maintained in quantity. The oft-quoted inconsistency of the various factors in the American trading position has therefore not been removed by the crisis. The balance of commodity trade is still active, and vigorous efforts have been made to promote both manufactured and agricultural exports, while imports are being checked by the high tariff and investment and debt claims maintained without renewing capital exports.

Exports and Imports of Manufactured Articles.

Recorded Trade Values (by Quarters) for the United Kingdom, the United States of America, Germany and France. [1]



[1] It should be observed that the comparison is based on available information concerning the value of manufactured goods according to the main groups of national classifications (in the case of Germany the international (Brussels) classification) as shown in national trade returns. Although these data are not strictly comparable, owing largely to a different classification of certain semi-manufactured products, the diagram claims to show adequately the trend of the countries concerned.

Apart from such exceptions, however, it may be stated generally that the terms of trade have continued to run unfavourably to the agricultural exporting debtor countries. [1] Any recovery of world prices which is to remedy this disequilibrium must begin with increased demand and higher prices for raw materials and foodstuffs in the industrial countries. Only in this way can the agricultural debtor countries improve their balances of payments, while extending their imports.

In the meantime, there is evidence that the trade war which has been raging, particularly among the industrial countries, is having somewhat similar effects to those which followed the war of 1914-1918. Trade is decreasing almost universally ; but its geographical distribution is shifting considerably as the next table shows.

The Percentage Distribution of World Trade by Continental Groups.
(Basis : Recorded values, reduced to dollars ; special trade, merchandise only.)

Continental Group	Imports				Exports				Total			
	1929	1930	1931	1932	1929	1930	1931	1932	1929	1930	1931	1932
Europe, excl. U.S.S.R.	54.2	56.4	58.4	58.1	47.2	50.2	51.2	48.8	50.8	53.5	55.0	53.7
Europe, incl. U. S. S. R.	55.4	58.3	61.1	60.7	48.6	52.2	53.4	51.1	52.1	55.4	57.5	56.1
North America .	16.0	14.3	13.1	12.6	19.5	17.9	16.1	16.5	17.6	16.0	14.5	14.5
Latin America .	7.6	7.2	5.8	5.5	9.6	8.5	9.0	9.2	8.6	7.8	7.4	7.3
Africa . . .	4.8	5.1	5.4	5.7	4.5	4.6	5.0	6.4	4.7	4.9	5.2	6.0
Asia, not including Asiatic Russia . .	13.5	12.7	13.0	13.5	15.1	14.3	13.9	13.7	14.3	13.5	13.4	13.6
Oceania. . .	2.7	2.4	1.6	2.0	2.7	2.5	2.6	3.1	2.7	2.4	2.0	2.5
Total. . .	100	100	100	100	100	100	100	100	100	100	100	100

While the lack of homogeneity among the countries in some of these continental groups renders the interpretation of the

[1] Cf. Chapter II.

figures difficult, the more detailed information available for individual countries leaves little room for doubt that very considerable shifts in the distribution of world trade are under way.

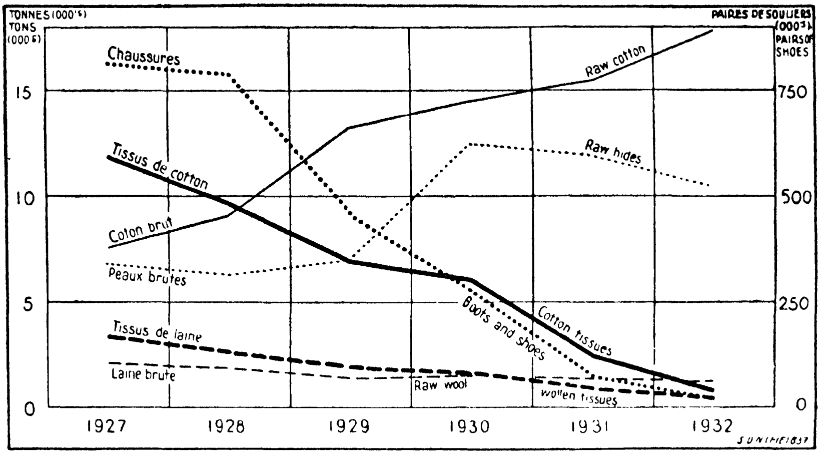
Percentage Share of Certain Countries in World Trade.

Country	1929		1932	
	Imports	Exports	Imports	Exports
United Kingdom	15.19	10.74	16.43	10.06
United States	12.19	15.61	9.58	12.39
Germany	9.00	9.72	7.98	10.70
France	6.41	5.95	8.44	6.08
Canada	3.65	3.71	2.87	3.83
Netherlands	3.11	2.43	3.77	2.68
Belgium	2.77	2.68	3.26	3.23
Japan	2.81	2.93	2.84	3.05
Italy	3.20	2.42	3.05	2.73
India	2.54	3.54	2.53	2.79
U. S. S. R.	1.27	1.46	2.59	2.28
Argentine	2.30	2.74	1.55	2.59
China	2.27	1.97	2.48	1.26
South Africa	1.19	1.37	1.21	2.53
Switzerland	1.45	1.21	2.39	1.17
Australia	1.98	1.79	1.35	2.10
Czechoslovakia	1.66	1.83	1.59	1.70
Dutch East Indies	1.25	1.76	1.15	1.82
Sweden	1.34	1.47	1.53	1.37
Spain	1.48	1.23	1.35	1.11
Algeria	0.65	0.46	0.20	1.16
Brazil	1.19	1.39	0.76	1.41
British Malaya	1.40	1.58	1.11	1.03

It is evident that, with certain exceptions, the share of the reduced world trade claimed by industrial countries was greater in 1932 than in 1929. This, however, was because of an increase in their imports. Thus, British imports rose from 15.19 to 16.43 per cent, French from 6.41 to 8.44 per cent, Dutch from 3.11 to 3.77 per cent, Belgian from 2.77 to 3.26 per cent, Swiss from 1.45 to 2.39 per cent. The exceptions are numerous — in the United States, Germany and Canada, for example, imports declined heavily. On the other hand, the decline of imports in the agricultural countries is very widespread. The strong tendency towards increased industrial equipment in countries hitherto dependent upon imported manufactures which has been mentioned in an earlier chapter, is the counterpart of these trade movements. The reversal of capital flow, adverse terms of trade, and growing trade restrictions have tended to promote autarchic developments

in the agricultural as well as the industrial countries. The natural corollary to agricultural protection in industrial countries is industrial development among the agricultural peoples who have been their customers. The *Review of World Trade*, 1932, gives some clear illustrations of such developments.

Hungary : Imports of Certain Raw Materials and Manufactured Articles.



The currency instability which has been a marked feature of the last year is a further factor of great and disturbing importance in world trade. Competitive currency depreciation, even when it is reluctantly entered upon, is a most formidable weapon of economic warfare ; but, unfortunately, it tends to have a boomerang effect, returning to strike dangerously at the spot from which it started. The beautiful simplicity of a policy which aims at lowering export costs by allowing a managed currency to depreciate externally, while at the same time endeavouring to maintain internal price stability, becomes obvious to exporters in more than one country. As one example of the way in which such a policy spreads there may be cited the chain of events which followed the depreciation of the New Zealand pound in January 1933. Despite its heavy external commitments, the Government brought pressure on the banks to raise their buying rate for sterling to the same level as that which had been in force in Australia since the beginning of 1931 — viz., 25 per cent premium. This measure was prompted by local considerations and was part of a considered plan to relieve the agricultural exporters. But the international repercussions

were immediate. Within a few days, Denmark, the chief rival of New Zealand in the English butter market, allowed the krone to drop to approximately the same level. Shortly afterwards, the Canadian Government initiated friendly conversations with New Zealand in order to avoid the necessity of imposing exchange dumping duties upon butter, which had only a short time before been the *casus belli* in a trade war between the two dominions. Almost at the same time it so happened that the British Government, as part of its plans for agricultural reorganisation, consulted the dominion and foreign producers concerning the possibility of imposing a butter quota. All of these actions were taken purely for reasons of domestic policy, without any intention of instituting reprisals. However, the price of butter in London went down substantially and the advantage accruing to the New Zealand exporter was minimised, with a more permanent possibility of his markets being restricted.

This instance is cited merely by way of example. Similar developments of the immediate reactions to currency depreciation might be cited from the experience of sterling, the depreciation of the yen, or the abandonment of the gold standard by the United States of America. The disturbance of international prices which results as one currency after another leaves gold sets up a scramble for trade advantages in which the chief weapons are higher import tariffs and quotas on the one hand, deflation in gold countries and further currency depreciation in paper countries on the other hand.

Chapter VIII.

MONETARY AND CREDIT POLICIES.

THE INSTABILITY OF THE EXCHANGES.

It was stated in the first chapter of this *Survey* that exchange instability resulting from the breakdown of the international gold standard was one of the principal causes of further economic deterioration in 1932 and figured prominently among the factors which limited and checked the revival of prices and productive activity in the third quarter of that year. In the previous *Survey*, attention was paid to the more fundamental economic forces which threw the principal national price systems out of equilibrium and rendered the task of keeping the exchange rates stable so difficult as to drive one country after another off the gold standard.[1] The earlier stages of this abandonment of the international standard were also described, and note was taken of the fact that, in the middle of 1932, there were some indications that the financial panic which began a year earlier was easing off, but had left economic activity at a low ebb.[2] At that time, however, the secondary consequences of exchange instability were not fully apparent, and it is necessary therefore to record the events since June 1932.

The extent to which the international gold standard had broken down by the middle of 1933 is summarised in the following tabular statement showing the important dates in the development of monetary policies since the depression.

It should be noted that, in many of the countries which retain the nominal gold parity for their currencies, the measures adopted for dealing with the blocked accounts that are accumulated as the result of exchange controls and transfer moratoria create in effect subsidiary exchange rates for special purposes.

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[1] *World Economic Survey*, 1931-32, Chapters I and II.
[2] *Ibid.*, Chapter XI.

THE DEVELOPMENT OF MONETARY POLICIES SINCE THE DEPRESSION.[1]

The Abandonment of the Gold Standard.

Date of depreciation in relation to gold		Country	Official suspension of gold standard[1]	Official imposition of exchange control[2]
Year	Month			
(Countries whose Currencies have depreciated in relation to Gold.)				
1915 . . .	—	Turkey	[5]	26. II. 30
1920 . . .	—	Spain	[5]	18. V. 31
1929 . . .	IV	Uruguay	XII. 29 [5]	7. IX. 31
	XI	Argentine	16. XII. 29	10. X. 31
	XI	Paraguay	[9]	VIII. 32
	XII	Brazil	—	18. V. 31
1930 . . .	III	Australia	17. XII. 29	—
	IV	New Zealand	1. I. 32 [5]	—
	IX	Venezuela	—	—
	X	Bolivia	25. IX. 31	3. X. 31
1931 . . .	VIII	Mexico	25. VII. 31	—
	IX	United Kingdom	21. IX. 31	—
	IX	Denmark	29. IX. 31	18. XI. 31
	IX	Canada	19. X. 31	—
	IX	Egypt	23. IX. 31	—
	IX	India	21. IX. 31	—
	IX	Ireland	26. IX. 31	—
	IX	British Malaya	21. IX. 31	—
	IX	Norway	29. IX. 31	—
	IX	Palestine	21. IX. 31	—
	IX	Sweden	29. IX. 31	—
	X	Austria	(5. IV. 33)[3]	9. X. 31
	X	Finland	12. X. 31	—
	X	Portugal	31. XII. 31	21. X. 22
	X	Salvador	8. X. 31	—
	XII	Japan	13. XII. 31	1. VII. 32
1932 . . .	I	Colombia	21. IX. 31	21. IX. 31
	I	Costa Rica	[5]	16. I. 32
	I	Nicaragua	—	13. XI. 31
	III	Persia	[10]	
	IV	Chile	20. IV. 32	30. VII. 31
	IV	Greece	26. IV. 32	28. IX. 31
	V	Peru	18. V. 32	—
	VI	Ecuador	9. II. 32	30. IV. 32
	VI	Siam	11. V. 32	—
	VII	Yugoslavia	[12]	7. X. 31
1933 . . .	I	South Africa	28. XII. 32	—
	IV	United States of America	6. III. 33	6. III. 33
	IV	Guatemala	—	—
	IV	Honduras	[7]	[7]
	IV	Panama	[6]	[6]
	IV	Philippines	[7]	[7]
	VI	Estonia	28. VI. 33	18. XI 31.

[1] League of Nations, *Monthly Bulletin of Statistics*, July 1933.

Country	Official suspension of gold standard[1]	Official imposition of exchange control[2]
(Countries whose Currency remained at Gold Parity at End of July 1933.)		
Albania	—	—
Belgium	—	—
Bulgaria	—	15. X. 31
Czechoslovakia	—	26. IX. 31
Danzig	—	—
Dutch East Indies	—	—
France	—	—
Germany [13]	—	13. VII. 31
Hungary [8]	—	17. VII. 31
Italy	—	—
Latvia	—	8. X. 31
Lithuania	—	—
Netherlands	—	—
Poland	—	—
Roumania [4]	—	17. V. 32
Switzerland	—	—
U. S. S. R.	—	[11]

For example, in Germany, the following classes of blocked accounts are recognised: foreign mark claims accumulated before July 16th, 1931, but not subject to the standstill agreements (Altguthaben), foreign property claims acquired after August 3nd, 1931 (Kreditsperrmark), bank-notes brought into Germany after February 19th, 1933 (Notensperrmark), claims

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1 Or embargo on gold export.
2 Unofficial restrictions are disregarded.
3 Since April 6th, 1933, all exchange transactions have been carried out at free market rate.
4 Gold exports prohibited July 28th, 1933.
5 Costa Rica, Spain, Turkey, New Zealand, Uruguay: the gold standard has not been legally established since the war; the latter two, however, reverted *de facto* to the gold parity.
6 The United States dollar in use also in Cuba, the Dominican Republic, Haiti and Panama, which have no comprehensive currency system of their own.
7 Honduras, Philippines: dollar exchange standard.
8 Since December 1932, the exporters of certain agricultural articles obtain a premium ranging from 3 to 20 per cent in addition to the pengo parity equivalent of foreign exchange surrendered to the National Bank, and importers have to pay a surcharge ranging from 13.5 to 17 per cent over and above the parity of exchange.
9 Paraguay: Argentine peso exchange standard.
10 Persia: silver standard until March 1932, when a gold parity was legally adopted. The exchange rate, however, approximately followed the £ sterling.
11 U. S. S. R.: State monopoly for foreign exchange transactions.
12 Official domestic quotations maintained in the neighbourhood of gold parity. Since October 17th, 1932, however, a premium of 20 per cent has been fixed by the National Bank for all transactions with countries with which no clearing agreement exists. In the clearing agreements, the premium has been fixed as from January 2nd, 1933, at 28½ per cent.
13 For recent developments in connection with blocked mark accounts in Germany, see pp. 223-4.

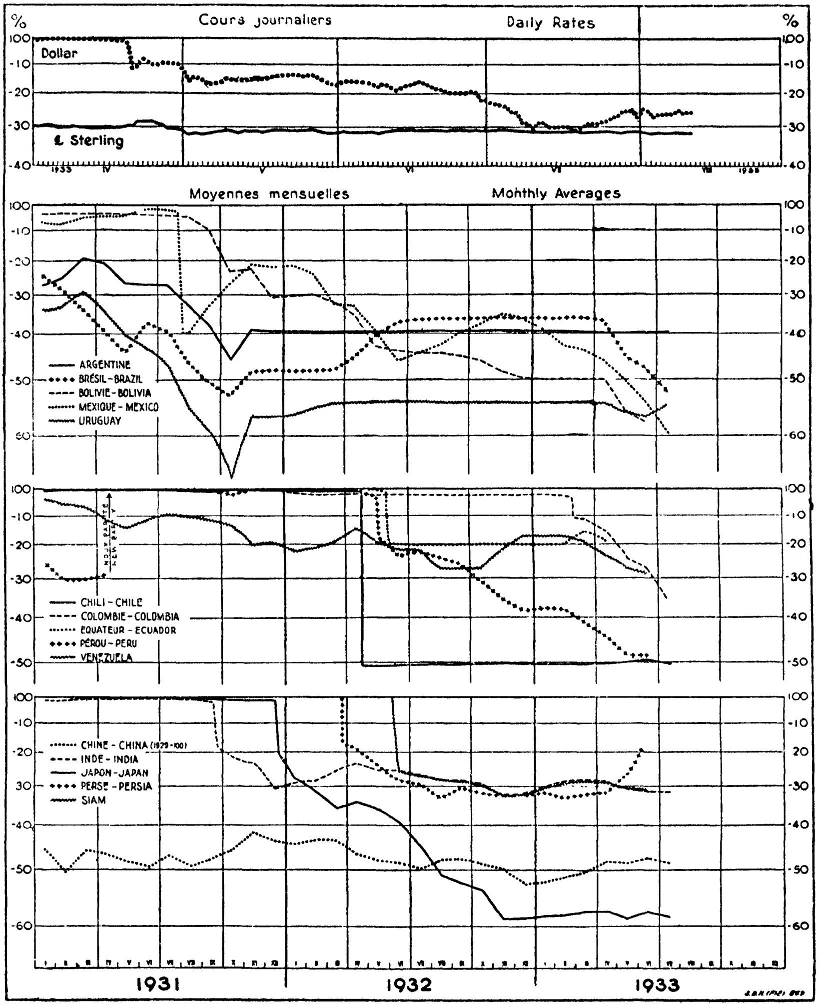
created by the sale or redemption of stocks and bonds (Effectensperrmark). Scrip issued in even amounts, with a minimum of RM. 40, may be issued to the owners of Konversionssperrmark and marketed on German and foreign stock exchanges. All of these blocked marks can be used, with the consent of the Exchange Control Office (Devisenbewirtschaftungsstelle), to buy mortgages or fixed property, or to give credit to Germans in Germany, or to share in a German enterprise, provided always that the investment is for five years at least. Under certain conditions, also, they may (except in the case of Effectensperrmark) be used to pay for purchases of German commodities destined for " supplementary exports ". The price paid for such blocked marks varies with the uses for which permission is given. At the end of July the current values ranged from about 28 per cent to 37 per cent (Effectensperrmark) below the gold parity. In the same way, tourists may buy blocked marks below the official rate. The credits subject to the standstill agreement of February 1933 (Registermark) may also be used extensively for certain purposes within Germany at about the same parity. Finally, the blocked marks now being accumulated as the result of the transfer moratorium on interest and amortisation payments on long-term loans which began on July 1st, 1933 (Konversionssperrmark), will provide another large amount of currency valued below gold parity. On the other hand, German exporters who have acquired the right to make " supplementary exports " may use part of the proceeds to buy German bonds abroad and re-sell them in Germany. This right is marketable and its value depends mainly upon the relative prices of German bonds at home and abroad. In July 1933, the value was about 20 per cent of the foreign price of such bonds.[1]

In order to illustrate the confusion of the exchanges during the greater part of 1932, the following diagrams are presented. They give a graphic picture of the way in which one currency after another fell from its gold parity. It is very clear, however, that, in the second quarter of 1933, rates were relatively stable, sterling keeping a constant relationship to the gold currencies, and other paper currencies remaining fairly stable in relation to sterling and to gold. There was evidently a strong tendency until the depreciation of the dollar began late in April towards settlement at a new exchange equilibrium. Whether the measure of equilibrium that had been reached can be maintained is a question that must be left for the next few months to answer.

[1] Cf. " Die Sperrmarksorten " in *Frankfurter Zeitung*, July 23rd, 1933.

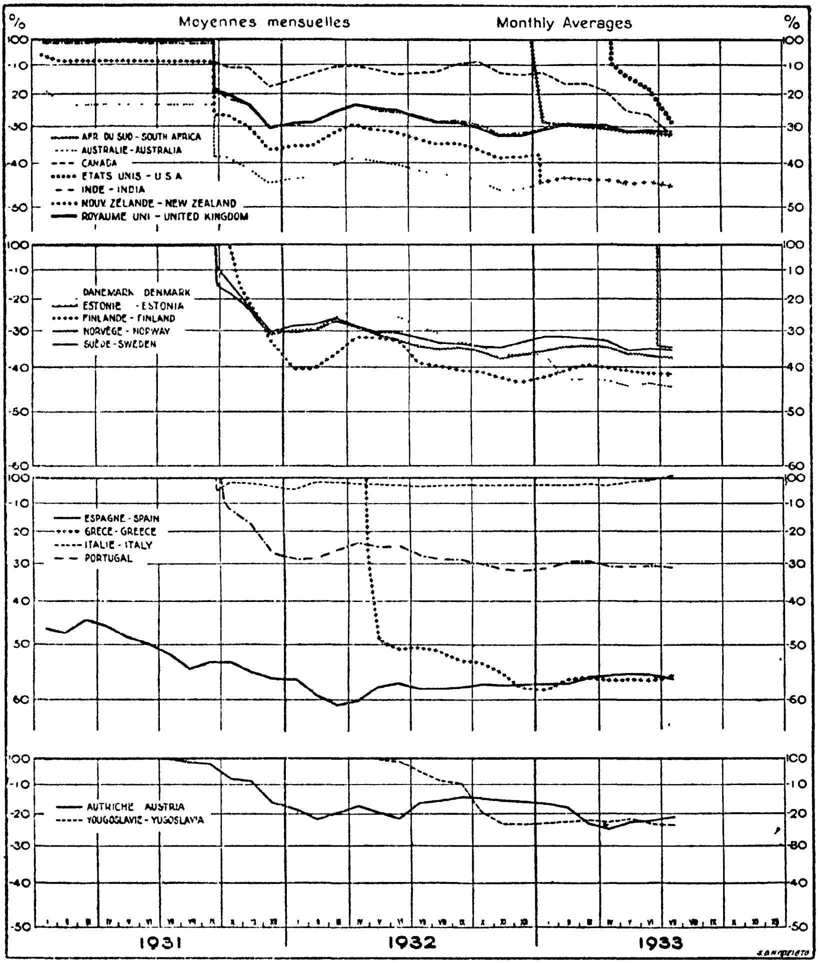
Exchange Rates.

Percentage Discount of Certain Currencies in relation to their Gold Parity.



Exchange Rates.

Percentage Discount of Certain Currencies in relation to their Gold Parity.



The grouping of the countries in the table on pages 222-3 emphasises the obvious importance, first, of the sterling depreciation in September 1931 and, later, of the dollar depreciation in April 1933. There were, in fact, three main currency groups in the world at the middle of 1933 — the gold bloc, the sterling bloc, and the dollar with its dependent currencies. This grouping became very clear during the course of the Monetary and Economic Conference. When it became apparent that, because of the developments of domestic policy in certain countries, immediate currency stabilisation was unlikely, there was a strong tendency for the countries remaining on gold, together with many other European countries which supported their policies, to seek closer means of monetary co-operation. In the only vote actually recorded on the financial side of the Conference, fifteen European countries supported the policy advocated on behalf of the gold bloc. Among these were to be found, not only the gold countries proper, but others which were either off the gold standard or maintained their currencies at nominal gold parities only by exchange controls. [1] In addition the gold countries, at a meeting in Paris of Central Bank representatives early in July, adopted concerted measures to sustain the gold parities of their respective currencies.

The sterling bloc also took a more definite shape when, on July 27th, the delegations of the United Kingdom, Canada, Australia, New Zealand, South Africa and India issued a joint declaration on currency policy.[2] This declaration re-affirmed the Ottawa policy of cheap credit aiming at a rise in prices, and re-stated the " ultimate aim of monetary policy " as " the restoration of a satisfactory international gold standard under which international co-operation would be secured and maintained with a view to avoiding, so far as may be found practicable, undue fluctuations in the purchasing power of gold ". The declaration further recognised " the importance of stability of exchange rates between the countries of the Empire in the interests of trade ", and opened the door for co-operation in this respect from other countries by the statement that " the adherence of other countries to a policy on similar lines would make possible the attainment and maintenance of exchange stability over a wider area ".

The relationship between these two definite currency groups had for some time been maintained stable by the fact that, since February 1933, sterling had remained at a constant level in

[1] The fifteen countries were Germany, Austria, Belgium, Bulgaria, Spain, France, Italy, Lithuania, Netherlands, Poland, Roumania, Switzerland, Czechoslovakia, Turkey and Yugoslavia.

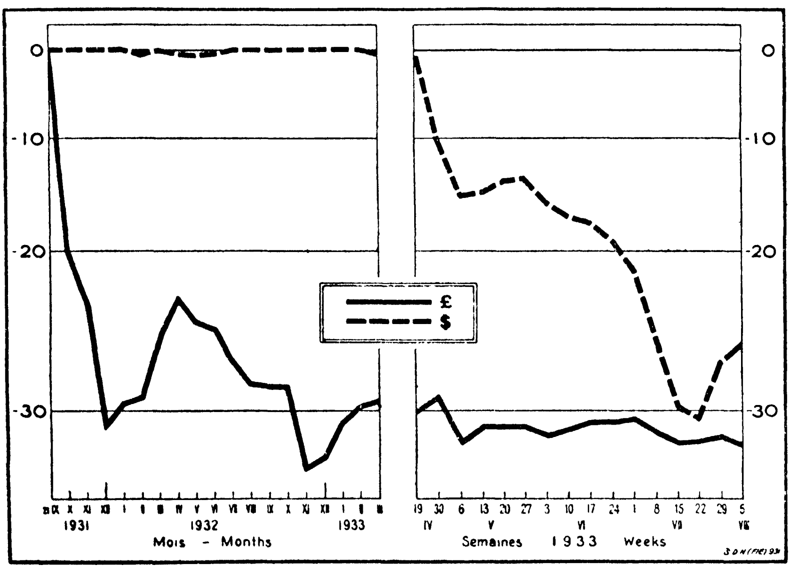
[2] London *Times*, July 28th, 1933.

relation to the French franc. The British Commonwealth declaration quoted above made it clear that this was not the result of any definite agreement and that " the United Kingdom Government has no commitments to other countries as regards the future management of sterling and retains complete freedom of action in this respect ". The actual stability of the sterling group exchanges relatively to the gold currencies for the six months preceding the declaration is, however, a fact of considerable significance.

The remaining currency group consists of the United States dollar and its satellite and dependent currencies, mainly those of certain Central American republics and the Philippines. The Canadian dollar inevitably occupies a position midway between the sterling and the dollar groups. The fluctuations of the dollar exchange in the months following the abandonment of the gold standard on April 19th, 1933, were both violent and rapid. After touching parity with sterling ($ 4.87 to the £) in mid-July, the value of the dollar appreciated again, and, by the end of July, was approximately 10 per cent above sterling once again. The

Dollar-Franc and Sterling-Franc Exchange Rates, September 1931 to July 1933.

(Percentage discount in relation to gold parities.)



fact that very wide powers of an inflationary character had been vested in the Executive, and that it was not possible to foresee what, if any, use would be made of them in the effort to force through a programme of domestic recovery, made the future prospects of the dollar exchange more than usually uncertain.

The relationship that has existed since September 1931 between the major currencies representative of the three groups distinguished above is shown by the preceding diagram. Apart from the recent sudden fall of the dollar, the most significant movement disclosed is the prolonged weakness of sterling between April and November 1932.

The factors that will govern the course of these principal exchanges during the second half of 1933 are, however, unpredictable. Government policies, movements of capital, the dispositions taken in regard to the shifting of the crops in the late summer and autumn and price movements all enter into the problem. Upon the outcome of these complex forces will depend the possibility of maintaining and extending the measure of exchange stability achieved in the first half of the year and building upon it a greater measure of international co-operation in regard to commercial as well as monetary policy. The alternative appears to be a further period of exchange instability with a renewed shock to confidence and fresh confusion in commercial relationships.

Commercial Banking in the Depression.

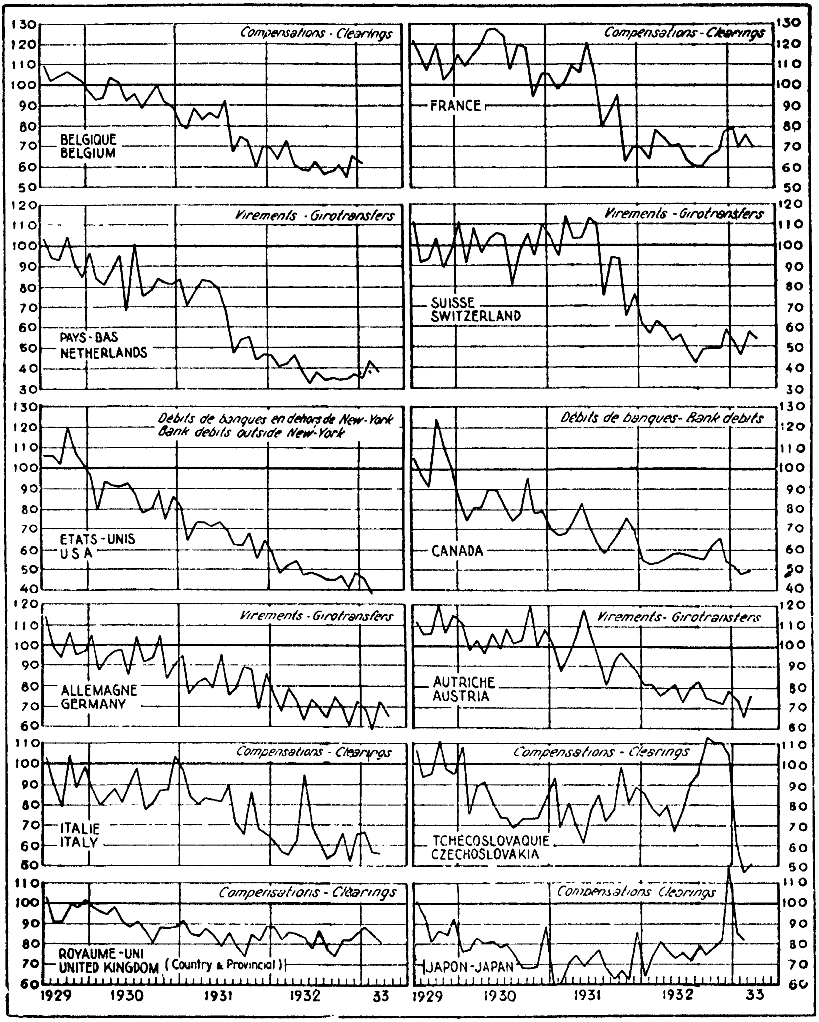
The preceding section of this chapter dealt with the extent to which national currencies and national price systems had been thrown out of equilibrium during the financial panic, and with the gradual approach to a new stability of relationships between them. The present section is concerned with certain banking problems connected with the attempt to achieve national as distinct from international equilibrium in the monetary sphere. Anything like a complete treatment of the problems involved in restoring economic equilibrium in the different countries is quite beyond the possibilities of what may be briefly attempted here ; but there are certain aspects of the banking situation common to many important countries which are particularly important from this point of view. Credit is the liquid medium in which the modern industrial organisation works. The banks act as reservoirs and distributing centres for credit, and their efficiency and stability are therefore matters of the very highest importance.

The previous *Survey*, written in the second quarter of 1932, drew attention to the extreme efforts being made by the banks of most countries to preserve and improve their liquidity during the financial panic. The " liquidity crisis " was just beginning to ease off as that *Survey* was being concluded in the middle of 1932. The problems facing the commercial banks resulted primarily from the rapid expansion of credit in the years preceding 1929. In countries where the expansion, relatively to industrial activity, had been most prudent and where the traditions of banking practice had prescribed caution in lending upon any but the most readily realisable securities, the commercial banks faced the depression in a reasonably sound position. No general statement can be made as to the soundness of banking practice in one country or another. The factors to be considered are so varied and often so peculiar to the circumstances of a particular country that prolonged and detailed study is needed before any statement might be ventured in regard to individual countries. Moreover, the importance in modern economic life of international finance, and equally of international trade and price relations, is such that the financial stability of even the most prudently conducted national banking systems is likely to become involved in the difficulties created by undue credit expansion elsewhere.

As the fall of prices proceeded from 1928-29 onwards and was accelerated by the financial panic which began in the spring of 1931, and as economic activity shrank under the pressure of accumulated trade restrictions and failure of confidence, the banking systems of those countries still adhering to the gold standard necessarily sought to strengthen their liquid resources, while those which functioned in paper-standard countries were hardly less free from the need for safeguarding their liquidity. While there was, in most cases, no very great shrinkage in the nominal amounts of deposits, the velocity of circulation dropped, so that the actual usage of credit was much reduced. That this phenomenon was not confined to any particular groups of countries may be judged from the following diagram showing the shrinkage of clearings.

In view of the great shrinkage of business activity reflected by these diagrams, it is significant to find that, particularly in the countries remaining on the gold standard, the commercial banks strengthened their liquid resources, a process in which they were assisted by the lack of demand for advances. The extent to which this was achieved is shown in the table on page 232.

Monthly Clearings in Certain Countries, 1929-1933.
(Base : Monthly Average January-June 1929 = 100.)



Ratios of Cash Resources to Total Deposits in Certain Countries (at End of June). [1]

Country	1929	1930	1931	1932
France	7.4	9.7	13.9	33.6
Switzerland	.	.	11.3 [2]	22.9
United Kingdom	11.3	11.5	11.7	11.5
United States	7.3	7.4	7.6	8.2
Italy	6.9	6.6	6.2	5.9
Germany	3.1	2.7	3.6	3.4
Poland	8.5	8.8	10.7	9.0
Sweden	2.1	2.3	2.1	3.8
Czechoslovakia	6.7	7.3	7.2	7.4
South Africa	10.3	10.0	9.1	10.1
Argentine	17.9	14.2	13.4	17.5
Australia	15.6	13.4	19.2	17.8
Canada	13.3	12.1	10.9	12.2
Chile	14.4	12.6	9.5	26.4
Japan	9.1	9.0	10.1	9.8
New Zealand	12.3	13.0	13.7	11.5

The movements disclosed in this table, while indicative of widely differing circumstances in the countries considered, reveal a widespread, though not universal or simultaneous, attempt on the part of banking authorities to improve their cash position. It was pointed out in the *Survey* for 1931-32 that, in the years preceding 1929, there had been, particularly in certain borrowing countries, a considerable shrinkage in the cash ratios of commercial banks as compared with pre-war practice. The margin of safety for the banks in these countries was reduced, but the recent movement has in many countries gone far towards bringing the cash ratios back to pre-war levels.

It is, unfortunately, not possible to present any measurement of the degree to which the great reductions in business profits described in Chapter V have reacted upon the liquidity of bank assets and the solvency of bank investments. It is common knowledge, however, that, during the boom period in most countries, industrial enterprises leaned heavily upon the banking systems. [3] Losses and frozen assets when the depression hit such industrial enterprises inevitably created a difficult series of problems for the banks.

It may be noted that the dangers arising from this situation were such that the necessity previously referred to for a strengthening of the banks' cash and liquid assets in order to safeguard depositors' interests in the event of a panic, together with the necessity for re-organising the capital structure of industry, hampered

[1] League of Nations, *Monthly Bulletin of Statistics*, No. 5, 1933.
[2] September 1931.
[3] *World Economic Survey*, 1931-32, pages 209-211.

the first efforts by Central Banks and Governments to combat the crisis by rendering credit cheap and abundant. A clear illustration of this fact is given by the history of the United States Reconstruction Finance Corporation and of the activities of the Federal Reserve Banks briefly summarised in the next section. The mobilisation both of Central Bank and of Government credit was utilised by the commercial banks to strengthen their liquid resources in order to face the possibility of urgent demands from their depositors, and little effect was produced upon industrial activity, except that the deflationary pressure exerted by the efforts of the commercial banks to improve their liquidity by reducing their commitments was relieved.

Towards the middle of 1932, however, the efforts to mobilise credit in order to stem the deflationary pressure appeared in many countries to be on the point of achieving some measure of success. At that point in the depression it became possible to plan more fundamental measures of relief and re-organisation. That the financial situation had become easier was evident from a succession of events — the downward movement of discount rates, followed by widespread reductions of interest rates, initiated by the Bank of England in February 1932, [1] the large-scale conversions of public debt which followed, the intervention of the Federal Reserve Banks and the United States Government in the American banking situation, and not least the favourable political settlement at Lausanne.

The time was ripe to tackle the great problems involved in banking and industrial reconstruction, and particularly the liberation of the banking systems from the burden of frozen and often unrealisable assets, which was one of the main factors in preventing the abundant supply of cheap credit from penetrating to the industrial structure and stimulating a return of business enterprise. [2] Not only was there a widespread doubt whether the process of liquidation had been completed, but the commercial banks with large unprofitable long-term assets and much

[1] Cf. Bank for International Settlements "Third Annual Report", May 1933, page 13.

[2] The situation was summed up in the annual report of the Bank for International Settlements in the following passage (pages 13 and 14) :

"The reduction of money rates may, in individual countries, be attributed to a return of money from hoarding, a slight recovery in savings, a deliberate policy designed to augment bankers' balances, the acquisition of new gold by the Central Banks, or perhaps also, in some instances, to governmental action. The dominating factor of the whole movement has, however, been the lack of demand for funds due to continued stagnation in industry, commerce and the capital markets. This can also be seen from the fact that it is particularly, and often only, investments which offer the very best security on the short-term market (principally Government issues) that have primarily benefited by the interest rate reductions. It has, indeed, been singularly difficult, even when the supply of funds has been plentiful, to make the lower rates penetrate into other branches of the credit structure, and, especially, into the various categories of long-term investments."

reduced returns from short-term dealings found great difficulty in passing on to the long-term capital market the reductions in interest rates that had begun to operate in the money market. It was necessary that some steps should be taken to rid them of their frozen assets before industrial recovery could be facilitated.

The reconstruction of the German banking system, which had been especially hard hit, was begun in February when the Government, with the assistance of the Reichsbank, put into effect a plan for the thorough re-organisation of the large commercial banks, involving a considerable writing off of assets and the supply of new capital with the aid of the Treasury and, indirectly, of the Reichsbank. Towards the end of 1932, further steps were taken by the creation of two new organisations, the German Finance Institute (Das Deutsche Finanzierungsinstitut) and the Amortisation Office for Industrial Credit (Die Tilgungskasse für Gewerbliche Kredit). The former, which was created by the subscription of preference shares by a group of semi-official banks [1] and ordinary shares by the commercial banks, will take over from the latter industrial shares of solvent businesses to an amount equal to ten times the share capital subscribed by the commercial bank concerned. This bank gets rid of an illiquid asset and in return receives bills discountable, if no other market can be found, at the Reichsbank up to 75 per cent of the value of that asset. The second institution has been created in order to facilitate the writing down and re-organisation of industrial companies which cannot present a solvent balance-sheet.

The liquidation of frozen banking assets in Italy has proceeded along somewhat similar lines with less recourse to the public credit. The Italian Mobiliar Institute, created in March 1932 by the flotation of bonds on the open market, grants long-term loans to industrial companies to enable them to repay bank overdrafts. The Institute of Industrial Reconstruction, created in January 1933 by the issue of debentures carrying a State guarantee, also takes over frozen assets and so liberates the banks from pressure upon their credit resources.

The constitution of the United States Reconstruction Finance Corporation is considered in the next section. It should be noted here, however, that its work did not serve the purpose of freeing the banks from illiquid assets, but, on the contrary, tended to hypothecate their sounder assets in order to provide

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[1] The Golddiskontbank, the Akzeptbank and the Bank für Deutsche Industrie Obligationen.

them with ready cash. The reconstruction of American banking activity in this respect was proceeding by individual action throughout the depression, but the panic of February-March 1933 forced both more drastic banking action and stricter Government supervision.

Action in other countries has varied. In Denmark, an institution somewhat similar to the Reconstruction Finance Corporation, the Krisefond, has been created. Austria, in March 1933, followed the German and Italian precedents by creating a separate institution, the Reconstruction Trust Company (Gesellschaft für Revision und Treuhändige Verwaltung), to take over the frozen assets from the commercial banks.

In addition to these specific cases of large-scale action to liquidate the legacies of the boom period, there have in most countries been " strenuous efforts in many branches of public and private economy to balance revenue and expenditure, to establish equilibrium between costs and prices, to render assets more liquid, to reach agreed arrangements for postponing or scaling down debt payments, to overcome the difficulties resulting from the liquidity crisis and to maintain control of the currency position ". [1] These developments, to which public authorities, central bankers, commercial bankers, and private individuals have all contributed, are at different stages in various countries ; but it is significant that the Bank for International Settlements, surveying the year 1932, should characterise it as " on the whole, a year of adaptation to changed conditions prevailing in the economic and monetary situation and one of some constructive effort ".

The Banking Crisis in the United States.

The general impression left by a survey of the developments analysed in the preceding section is one of gradual, if incomplete, adaptation of banking practice to the very difficult circumstances created by the financial crisis, which passed through its worst phase between May 1931 and June 1932. By the middle of 1932, though the banking systems of many countries were strained and functioning with a greatly reduced volume of business, and though there were many dangerous legacies of the crisis, such as frozen assets and heavy investment losses, most of them

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[1] Bank for International Settlements " Third Annual Report", *op. cit.*, page 6.

had come through an unprecedented period of stress, damaged, perhaps, but not destroyed. In the first quarter of 1933, however, the collapse of the United States banking system struck a fresh blow at public confidence.

The recent development, by individual enterprise, of large areas of the country, combined with a tradition of individualism and local independence, and insistence upon States rights derived from historic controversies, led naturally in the United States, as in somewhat similar periods of economic evolution in other countries, to the creation of large numbers of small, local banks, responsive to the needs of their immediate constituencies, but not fully integrated into any general financial system. The total number of banks reached its maximum in 1921, when 29,211 banks were operating ; but has steadily fallen since, to 23,972 at the end of June 1929, and less than 17,000 at the end of June 1932. At the middle of 1929, 22 per cent of all the banks had a capital stock of less than $25,000, and 84 per cent had less than $100,000; but these 84 per cent accounted for less than 40 per cent of the total banking resources, the 250 largest banks, about 1 per cent of the total number, controlling more than half the resources. Over 80 per cent of all banks at June 1929 were situated in towns of ten thousand inhabitants or less.

The period of consolidation and co-ordination of banking enterprises had, therefore, begun long before the depression, but had not reached the point where a fully developed central banking institution was in a position to support, and in some degree control, the numerous scattered commercial banks, or where the stronger commercial banks had developed the tendency, so pronounced in other countries, to incorporate the smaller banks as branch units of the larger organisation. Branch banking had not greatly developed, and definite legal difficulties, as well as the diversity of regulation under forty-nine separate legislative bodies, presented obstacles to its extension. There was a competitive element, both in the legislation, and still more in the administrative controls, under which State and National Banks worked, and the possibility of developing an integrated financial system was greatly weakened by the advantages offered by incorporation under State laws. The Federal Reserve system, created only in 1913, discharged many of the functions of a Central Bank, but itself was on a federal basis, and did not comprehend all of the commercial banks in its activities. It did, however, bring some measure of co-ordination into the system, and the development of correspondent relationships between commercial banks went some distance also towards

linking the smaller with the larger banks, and therefore towards introducing greater elasticity of resources into the system. [1]

Quite clearly, however, the banking organisation as a whole was in the early stages of transition from decentralised and unco-ordinated but vigorous local initiative to a more unified and centralised co-ordination and control. As in any financial crisis, the weaker independent units sustained the first shocks of the depression, and it was among them, particularly among the banks working under State as distinct from national regulation, and outside the Federal Reserve system, that failures were most frequent.

The difficulties which led to the financial collapse of early 1933 were, however, more fundamental than a mere structural weakness in the banking organisation. After the immediate post-war crisis, from 1922 to 1929, there had been a considerable credit expansion, in the course of which important changes in practice had the effect of impairing both the liquidity and the solvency of many institutions when the fall of security prices took place in October 1929. The credit expansion was built primarily upon the great influx of gold into the banking reserves during most of the years 1922-1929. The gold influx was supplemented by increased currency issues (for example, silver certificates) and by the liberal re-discount policies which were pursued by the Federal Reserve Banks. The impetus to business activity imparted by this increase of reserves and the cheaper credit to which it gave rise, more especially in the short-term financial markets, was greatly reinforced by the banking methods adopted to maximise both the expansion of advances and deposits based upon the newly acquired reserves and the velocity with which the credit thus created changed hands.

Without entering into the technical details of these methods, they may be rather summarily described as devices to finance the expansion of foreign business, municipal lending, and the security and real-estate speculation that developed rapidly in this period. The practice of building up time rather than demand deposits in order to take advantage of the lower reserve requirements exacted in respect of the former, the creation of security affiliates to promote the flotation and marketing of new stock issues, the practice of granting liberal advances upon industrial securities and real-estate collateral, thus facilitating the financing and re-financing of industry by direct

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[1] For statistical details concerning the organisation of the banking system in the United States, see League of Nations *Commercial Banks*, 1913-1929, Geneva, 1930, and the forthcoming volume entitled *Commercial Banks*, 1929-1932, to be published at the end of 1933.

issues of new shares on the market instead of by overdrafts or commercial bills, and the provision of large loans to security brokers were some of the ways in which banking practice facilitated the security and real-estate boom. The following table, which compares the main classes of loans and investments of all commercial banks in the United States in 1922 and 1929, shows clearly the change in banking practice. It is of some interest to note in passing that the expansion of credit, and also the subsequent deflation, were greater in the "country" banks than in the great financial centres. The speculative fever was nation-wide, and pressure upon the isolated, independent country banks to facilitate expansion was very great.

Loans and Investments of Commercial Banks in the United States, 1922 and 1929.

$(000,000's).

Class of credit	June 30th, 1922	June 30th, 1929	Increase	
			Amount	Per cent
Security loans	6,521	11,518	4,997	77
Real-estate loans	1,989	4,540	2,551	128
All other loans	15,194	18,567	3,373	22
Investments	9,215	13,191	3,976	43

The obvious corollary to such freedom of lending upon securities and real estate was an increased dependence of the banks upon the stability of the security and real-estate markets. The liquidity of the banking system as a whole, and still more of particular banks, was impaired by the decreased relative importance in their assets of self-liquidating commercial bills and Government securities and the greater importance of municipal advances and loans upon industrial securities and real estate which could not be quickly realised without undue loss in a period of difficulty. Moreover, the reduced proportion of commercial bills and Government securities in their portfolios limited the extent to which the banks could increase their liquid assets by re-discounting eligible paper at the Federal Reserve Banks. The increased proportion of their assets which took the form of direct investments was another source of illiquidity. [1] In simple language, the banks had advanced loans too freely against securities that could not be readily turned into cash

[1] Full statistical details concerning these developments will be published in *Commercial Banks*, 1925-1933.

assets without undue loss when the boom ended in October 1929. In so doing, they impaired their capacity to meet the demands of their depositors freely and adequately in the event, which actually occurred, of a financial panic.

The drastic fall of security prices and real-estate values which was precipitated by the Stock Exchange crisis of October 1929 inevitably ushered in, therefore, a period of intense difficulty for the commercial banks. It became necessary for them immediately to overhaul their portfolios, restrict their advances, call for additional collateral, and, if that was not forthcoming, realise upon the collateral already in their possession. Thus began a long period of liquidation during which the banks endeavoured to regain their lost liquidity by drastic curtailment of credit and tightening up of advances — deflationary processes that led naturally to restricted business and reduced purchasing power, necessitating further liquidation. It was this long deflationary pressure which lay behind the banking crisis of early 1933.

The phases through which the liquidation passed may be roughly divided into four periods. In the first, from the Stock Exchange break in October 1929 to the onset of the financial panic in May-June 1931, the liquidation was moderate and slow. The total decline in loans and investments of all banks between October 1929 and June 1931 was less than 7 per cent. During the early part of 1930, indeed, there was very little liquidation. Discount rates were lowered and the Federal Reserve Banks also enlarged the credit basis for commercial banks by large open-market purchases of Government securities. The indebtedness of member banks to the Federal Reserve Banks, which had been over $1,000 million in August 1929, was, in June 1930, reduced to $250 millions, as the commercial banks were able to sell their securities and pay off their indebtedness. These are the measures of relief ordinarily offered by a Central Bank in a crisis — free lending at cheap rates, supplemented, if necessary, by open-market purchases designed to relieve the commercial banks — but they were inadequate to correct the situation.

The crisis entered a new phase after the banking difficulties of the Austrian Credit-Anstalt in May 1931 precipitated an international financial crisis. Deflation took a sharper turn downwards in the United States and, when the United Kingdom and a number of other countries were forced off the gold standard in September 1931, the pressure developed into the so-called " liquidity crisis " described in last year's *Survey*. [1]

[1] Pages 211-219.

Even during the earlier period of relatively moderate liquidation there had been a disquieting number of bank failures, and the panic period sharply accentuated this trend. By the end of 1932, over 10,000 banks of the 29,000 which had been in operation in 1922 had closed their doors, locking up deposits amounting to $5,000 million. Half of these failures, it should be added, took place in the seven good years from 1922 to 1929, the remaining 5,000 in the three years of depression 1930-1932 — mostly in 1931. The mortality was greatest among the smaller banks which were not members of the Federal Reserve system. Over one-third of the failures took place in villages with a population of less than 500, and one-half in villages with less than 1,000 inhabitants.

Other factors placed a heavy strain upon the United States banking system in this period of panic. Gold and currency hoarding within the country, which first became marked towards the end of 1930 and was later reduced, became intensified again in the second half of 1931 after the United Kingdom had left the gold standard and there was some discussion of the United States following suit. It is estimated that, by the end of June 1932, the amount of currency hoarded in the United States was at least $1,600 million.

At the same time, there were very considerable withdrawals of foreign short-term credit, reflected in large gold exports as well as a reduction of American short-term assets abroad. Various European banks strengthened their domestic position by withdrawing their short-term assets, principally from New York. Between the end of June 1931 and the end of June 1932, the total monetary gold stock of the United States declined by $1,100 million.

It is obvious that such tremendous drains, not only upon the total deposits, but upon the reserves which are the heart of the whole credit system, involved further drastic deflation. The banks were forced to contract their advances, and, as the margins of security shrank, collateral holdings were thrown upon the markets, which declined precipitately. By the end of June 1932, commodity prices, security values, industrial production and employment had touched new low records for the depression and remained at levels lower than any experienced since the war. During the twelve months ending June 30th, 1932, the total loans and investments of the member banks were reduced by $6,000 million, or 17 per cent as compared with 6 per cent in the preceding twenty-one months. Unlike the previous period, however, the deflation was not concentrated upon the ordinary commercial loans which were most immediately subject to banking pressure. In 1931-32, it was a deflation of security

loans, and therefore of security values, which was most marked. In the process, the investments made by the banks themselves were subjected to heavy losses, and it is estimated that, from June 1931 to June 1932, the losses sustained by American banks on their bond holdings amounted to at least $2,000 million, or enough to wipe out half the paid-up capital of all American banks in existence at the former date.

After the breakdown of the gold standard in September 1931, a combination of difficulties — the strained condition of municipal finances, domestic hoarding, foreign credits subjected to standstill agreements, the withdrawal of short-term balances, together with further heavy falls in real-estate values and security prices — created great pressure upon the cash bases of bank credit. Emergency measures were put into operation by the Federal Reserve Banks and the Government in order to counteract the effect of this pressure. These measures took three principal forms. The Federal Reserve Banks in the early stages had greatly extended re-discounts to the member banks ; in February, however, they began once more to buy Government securities on a great scale in the open market and so to facilitate repayments of this indebtedness by the member banks. Between the end of February and the end of June 1932, the Federal Reserve Banks' holdings of United States Government securities rose from $740 millions to $1,784 millions.

In October 1931, the National Credit Corporation had been formed, on the initiative of President Hoover, by several large banks joining forces to extend credit to banks in temporary difficulties. While this measure appeared to assist in restoring confidence temporarily, there was a recrudescence of banking failures in December and January. In February 1932, therefore, the Reconstruction Finance Corporation was organised and took over the business of the National Credit Corporation. The capital stock of the Reconstruction Finance Corporation ($500 million) was entirely paid up by the Government, which also purchased $825 million of 3½ per cent notes from the corporation, raising the necessary funds by issuing its own bonds and Treasury bills, which were in turn largely taken up by the Federal Reserve Banks. With this capital in hand, the Reconstruction Finance Corporation made large advances principally to banks, trust companies, railways and insurance companies. The purpose of these loans, amounting to over a billion dollars at the end of June 1932 and to double that amount by the end of the year, was primarily to enable solvent institutions to survive the panic phase of the crisis.

The third line of defence against the panic was by legislation, notably the Glass-Steagall Act passed in March 1932, designed to

give greater powers to the Federal Reserve Banks in the creation of credit. The gold reserves are required partly as cover for the domestic note issue and partly against the risk of an external drain of gold. The demand for notes created by the hoarding that had developed and the gold exports necessitated by the withdrawal of foreign short-term balances had greatly reduced the amount of " free gold " over and above the statutory reserve requirements laid down by existing legislation. There was at that time ample gold to meet foreign obligations, but the open-market operations of the Federal Reserve Banks required a greater amount of " free gold ". The Glass-Steagall Act authorised the Federal Reserve Banks to use Government securities, in addition to " eligible paper " and gold or gold certificates, as collateral for the note issue. In this way, the " free gold " holdings of the banks were greatly increased and a larger element of elasticity was introduced into the banking system.

In the same way, the bank-notes issued by the national banks were given a wider basis of cover by legislation allowing them to be issued against a greater number of specified Government securities, thus affording a considerable potential expansion of circulation. The Emergency Relief Act of July 1932 also extended the powers of Federal Reserve Banks to make advances, previously limited to member banks, to individuals and corporations under certain circumstances.

The combined effect of this legislation to give greater elasticity to the banking system, of the positive action by the Federal Reserve Banks to make credit cheaper and more abundant, and of the provision of Government loans through the Reconstruction Finance Corporation, together with the easing of the crisis in the United States and elsewhere, was to usher in a period of comparative tranquillity in the second half of 1932. The expansion of Federal Reserve credit, which, theoretically, might have been made the cash basis of an expansion of member-bank credit up to about $10,000 million, was, in fact, used by the member banks to improve their liquidity. Of the $1,000 million put into circulation by the Federal Reserve Banks' purchases of Government securities, about $500 million actually found its way to the member banks, who used almost $400 million to reduce their indebtedness, and the remaining $100 million to increase their balances, with the Reserve Banks. There was, by the end of 1932, no expansion of member-bank credit ; but the previous deflation was brought to an end and the number of bank failures decreased very considerably.

Towards the end of the year, however, despite the persistence of monetary ease, bank failures began to increase, and, as the

autumn revival gave way to recession, a wave of mistrust marked by withdrawals of deposits, and very soon by actual currency and even gold hoarding, led to runs, first upon particular banks and then upon banks in general in many widely separated parts of the country. The panic that ensued was the most spectacular breakdown of public confidence witnessed in any country for many years. In the middle of February, there were runs on important banks in the State of Michigan, and all banks in the State were closed for a week. In other parts of the country, confidence failed rapidly, and it was a matter only of days before similar runs and banking holidays had occurred in every State. On March 4th, the day of his accession to power, President Roosevelt, faced with banking holidays in every State and the closing of the New York and other stock exchanges, declared a national banking moratorium.

Some indication of the strain on the banks may be gleaned from the fact that, between February 1st and March 8th, the monetary circulation increased from $5,652 million to $7,538 million, no less than $455 million of the increase taking place on one day, March 3rd. The drain began in the interior ; but the country banks drew heavily on their New York correspondents as well as on the Federal Reserve Banks. The New York City banks in six weeks mobilised over $1,300 million, which they placed at the disposal of their depositors and correspondents. The Federal Reserve Banks in the same period discounted $1,145 million of new bills and bought acceptances to the extent of $384 million, besides increasing their holdings of Government securities by $117 million. The gold holdings of the Treasury and the Federal Reserve Banks also dropped by $600 million, at least half of which was hoarded. The reserves of the Federal Reserve Banks, despite the legislation described above, were again brought down, by gold export and hoarding, dangerously near the minimum reserve ratio. The ratio of the New York Bank fell to 41.4 per cent, and it was kept above the legal minimum of 40 per cent only by selling Government securities to, and re-discounting the Bank's own paper with, other Federal Reserve Banks. The ratio for all the Federal Reserve Banks fell to 45.1 per cent.

The President, having on March 4th proclaimed a national bank holiday, summoned Congress to meet on March 10th, meantime imposing an embargo upon the export of gold and silver. Two days later the Federal Reserve Banks were instructed to pay out no more gold or gold certificates and to prepare lists of gold hoarders. Congress, at its special session, approved emergency measures giving the President complete control over all banks, authorising the re-opening of banks declared to be sound

and the re-organisation of others. The Federal Reserve Act was amended so as to give greater powers both in regard to note issues and in regard to advances.

On March 13th, some banks were allowed to re-open, and, by the end of March, 12,800 out of a total of some 17,000 were in full operation once more. The sound banks had controlled well over 90 per cent of deposits, and there was in consequence a rapid liquidation of the immediate crisis. Currency flowed back to the banks, which were enabled to repay their indebtedness and increase their balances with the Reserve Banks. The improvement is well illustrated by the following table :

United States Monetary and Credit Movements, March 8th to August 9th, 1933.

$(000,000's)

Date	Money in circulation	Federal Reserve credit outstanding				Member-bank reserve balances
		Bills discounted	Bills bought	United States Government securities	Total	
March 8th	7,538	1,414	417	1,881	3,712	1,776
15th	7,269	1,232	403	1,899	3,534	1,964
29th	6,353	545	310	1,838	2,693	1,987
April 12th	6,147	428	247	1,837	2,512	2,096
26th	5,994	385	177	1,837	2,399	2,136
May 10th	5,892	338	113	1,837	2,288	2,089
24th	5,795	312	43	1,862	2,217	2,194
June 7th	5,767	277	11	1,912	2,200	2,204
21st	5,696	222	9	1,955	2,186	2,205
July 5th	5,752	182	26	1,995	2,206	2,219
19th	5,635	163	10	2,017	2,190	2,289
August 9th	5,608	156	8	2,048	2,212	2,376

The struggle for liquidity in the days preceding the crisis and the locking up of deposits in the banks which remained closed had naturally exerted a deflationary effect, and it was not till after the abandonment of the gold standard on April 19th that a definite upward movement took place in loans and investments. The subsequent developments are discussed in Chapter XI.

On June 16th, the Banking Act, 1933, was signed. A Federal Deposit Insurance Corporation was set up in order to guarantee deposit accounts. Greater powers were given to the Federal Reserve Banks to control speculative operations by member banks ; security affiliates are required to be separated from the banks and more definite separation of deposit and investment banking is demanded ; branch banking within States is facilitated,

and the regulations governing demand and time deposits are tightened considerably. In addition, the payment of interest upon demand deposits was prohibited. In the following week, ending June 21st, net demand deposits in ninety leading cities decreased by $384 million, while time deposits rose only by $73 million. The deposits withdrawn appear to have been utilised largely in the purchase of industrial and other interest-earning securities, a development which transferred a considerable amount of such securities from bank portfolios to private ownership. [1]

The Developing Functions of Central Banks.

The special position of Central Banks in the economic life of modern communities is derived from their double relationship, on the one hand, to the State, in respect of monetary policy, and, on the other, to the commercial banks, and, through them to the industrial and trading community, in respect of the supply of credit. The origins of particular Central Banks may be traced to different combinations of circumstances — the necessities of public finance, a desire to foster financial or industrial development, or the desirability of establishing sound currency policies. Whatever these origins may have been, central banking practice has steadily evolved towards very similar responsibilities and purposes in every modern country. Methods of achieving those purposes vary, and the authority of the Central Bank is greater in some countries than in others ; but there is a continuous development of function and a growing tendency towards co-operation among the various Central Banks. While it is possible to exaggerate the extent to which these developments have proceeded, and, in particular, to attribute to the Central Banks powers and possibilities of action which they have not yet achieved, the spread of central banking and the development of central banking practice are among the most significant advances in social organisation that have sprung from the stress of recent years. It is characteristic of the modern spirit also that these institutions, while for the most part private or at least politically independent in their organisation, act as a bridge between the individual initiative which dominates the economic system and the public responsibilities of Governments. In so doing, they necessarily endeavour to combine the freedom characteristic of private enterprise with a sense of public responsibility.

The pervasive importance of credit in modern economic organisation renders the function of Central Banks one of peculiar

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[1] *The Annalist*, July 7th, 1933, pages 4-5.

delicacy and significance. In simpler times, the State prerogative and duty of providing stable and adequate means of exchange was less closely linked than at present with the conduct of industry and trade upon a credit basis. Coinage and the issue, or at least the regulation, of currency remains a prerogative of the State ; but, except in abnormal circumstances, coins and currency issues do not govern, but are rather governed by, the volume of credit in use. The commercial banks act as the channels through which credit is accumulated and distributed, and the function of the Central Bank in this respect is to act as a bankers' bank.

This means, in practice, that the main responsibility of Central Banks is that of maintaining, not only national, but international economic equilibrium. It is obvious that Central Banks do not have, nor is it likely that they will ever have, the power to govern and direct all the factors that enter into these equations. In the balancing of the forces which affect national and international economic equilibrium, Governments, Central Banks, commercial banks and private individuals all have a rôle to play. It is, indeed, essential for progress that as much freedom of initiative as is compatible with orderly development shall be preserved. It is, therefore, not a question of Central Banks developing into economic super-governments ; but rather of their discharging an essential mediatory and regulatory function in the economic organisation. Any governing action they perform resembles that of the " governor " which absorbs irregular stimuli and smooths out the rhythm of an engine. If the stimuli are too irregular, they may become uncontrollable.

It follows that, in the pursuance of international co-operation, the Central Banks have eschewed any notion of creating an international Central Bank of Central Banks in the sense of a controlling and supervising institution. The essential problems of international economics, it is argued in a later chapter, are problems of balancing the activities and relations of a series of independent, but related, national economies. The Central Banks, through their common organ of consultation, the Bank for International Settlements, can and do contribute towards the measures necessary to harmonise national economic policies in the common international interest ; but they do so by consultative co-operation rather than by unified action.

The progress made in pursuing the policy of cheap credit, initiated, in its most recent phase, by the lowering of the Bank of England's discount rate from 6 to 5 per cent in February 1932, illustrates the principles sketched above. The widespread and practically continuous lowering of Central Bank discount rates since that time is summarised in the following table.

Rates of Discount of Central Banks. [1] (End of month.)

Country	1931	1932				1933	
	XII	III	VI	IX	XII	III	VI
South Africa	6	6	6	6	5	4	3.5
Germany	7	6	5	4	4	4	4
Austria	8	7	7	6	6	5	5
Denmark	6	5	4	4	3.5	3.5	3
United States [2]	3.5	3	2.5	2.5	2.5	3.5	2.5
France	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Greece	11	11	11	10	9	9	7.5
Hungary	8	7	6	5	4.5	4.5	4.5
India	8	6	5	4	4	3.5	3.5
Italy	7	6	5	5	5	4	4
Japan	6.57	5.84	5.11	4.38	4.38	4.38	4.38
Norway	6	5	4.5	4	4	4	3.5
The Netherlands	3	3	2.5	2.5	2.5	2.5	4.5
Poland	7.5	7.5	7.5	7.5	6	6	6
Portugal	7	7	6.5	6.5	6.5	6	6
Roumania	8	7	7	7	7	7	6
United Kingdom	6	3.5	2	2	2	2	2
Sweden	6	5	4	3.5	3.5	3.5	3
Switzerland	2	2	2	2	2	2	2
Czechoslovakia	6	6	5	4.5	4.5	3.5	3.5
Turkey	.	8	8	7	7	5.5	5.5

The reduction of Central Bank rates spread quickly to the money markets, which in turn lowered the rates at which they were prepared to advance credit to short-term borrowers. These market rates of discount, in fact, fell to extraordinarily low levels, indicating an abundance of credit but a dearth of borrowers in certain countries. The extent of the fall in market rates is revealed in the following table :

Market Rates of Discount. [3] (Monthly average.)

Country	1931	1932				1933	
	XII	III	VI	IX	XII	III	VI
Germany	7.32	6.09	4.75	4.25	3.88	3.88	3.88
United States :							
(a)	3.88	3.83	2.94	2.25	1.64	3.00	1.75
(b)	3.00	2.50	0.88	0.75	0.38	2.88	0.38
France	1.88	1.73	1.12	1.06	1.06	2.13	1.85
The Netherlands	1.47	1.21	0.52	0.38	0.38	0.69	2.19
United Kingdom	5.88	2.59	1.06	0.66	1.09	0.63	0.50
Switzerland	1.75	1.50	1.50	1.50	1.50	1.50	1.50

(*a*) Commercial paper. (*b*) Bankers' acceptances.

[1] *Monthly Bulletin of Statistics.* [2] Federal Reserve Bank of New York.
[3] *Monthly Bulletin of Statistics,* No. 8, 1933.

While it is thus evident that short-term credit was extremely plentiful and cheap in the principal money markets, there were many obstacles which prevented this cheap credit from penetrating quickly into the industry and trade of the countries concerned. Long-term interest rates upon both public and private investments remained difficult to reduce. But the most serious difficulties lay in the frozen assets and investment losses of the banks themselves and in the necessity for carrying through very considerable reconstructions of industrial capitalisation. In other words, some house-cleaning was necessary before the cheap credit policy could become effective. The debris left by the financial panic had to be cleared away before any considerable revival of economic activity could be looked for.

The cheap credit policy, however, was not ineffective. In the first place, as has been stated above, it enabled the commercial banks to improve their own cash position and so enabled them to face with greater assurance the difficult problems of industrial reconstruction. More favourably situated borrowers, moreover, were able to take advantage of the lower rates ruling in the short-term market and many Governments followed the lead given by the United Kingdom at the end of June 1932 in launching large schemes of long-term debt conversion. The Australian, Belgian, Danish, Dutch, French, Italian, New Zealand, Swedish and Swiss Governments all converted part of their public debt. Opinions differ as to whether particular Governments have made the fullest use of these conversion opportunities ; but the total effect has been, not only a considerable relief to the budgets, but also a strong downward impetus to long-term interest rates. Some industrial enterprises also were able to convert part of their debenture obligations, and there are indications that the conversions and consolidations of public debt have by no means been completed at the moment of writing in July 1933.

The downward movement of interest rates thus initiated was followed during the latter half of 1932 by reductions of rates by savings banks, building societies and similar institutions. In many countries, notably Austria, Czechoslovakia, Finland, Italy and Sweden, the Central Banks intervened in order to secure a more uniform adjustment than would result from purely individual action. In several countries, also, Government initiative was taken to effect a reduction of the interest rates charged by commercial banks. This was notably the case in Italy, Poland and Denmark.

Positive action by the Central Banks, either individually in their own countries, or collectively by the stronger Central Banks through the medium, and with the co-operation of, the

Bank for International Settlements taking steps to relieve the pressure upon Central Banks in other countries, has gone some distance towards freeing the commercial banking systems from the obstacles which prevented them from passing on the reduction of interest rates to industrial enterprises.

Central Bank action was particularly effective in the reduction of the frozen short-term indebtedness which was a serious obstacle to the freeing of international financial and economic relations. The Bank for International Settlements, in its second annual report, estimated the total amount of short-term international indebtedness which existed at the beginning of 1931 as more than $10,000 million. [1] Later information leads to the belief that the full total was probably between $12,000 and $13,000 million. Of this large amount, almost half (about $6,000 million) was liquidated during 1931 either by repayment or by writing off losses. The process of liquidation was facilitated by emergency help made available by Central Banks, by the Bank for International Settlements, by the principal capital centres and by Treasuries. The total of such emergency grants has been estimated at about $1,000 million. [2] If allowance is made for these new obligations, the total outstanding foreign short-term indebtedness at the beginning of 1932 was about $7,000-8,000 million. Repayments continued throughout 1932, and by the end of the year the total had probably been reduced to some $6,000 million. [3]

While grave financial problems still confront the world, nationally and internationally, and progress in solving them is necessarily slow and difficult, enough has been said to indicate that there has been progress. It is obvious that the unusual stress of recent years has both tested the capacities and developed the functions of Central Banks and, in particular, has fostered a degree of co-operation among them that is new at least in its continuity. As an illustration of the developing functions of many Central Banks may be cited the use of open-market operations, for example, by the Scandinavian banks. The outstanding feature of the co-operation that is developing among Central Banks is the rôle played by the Bank for International Settlements.

It is significant that successive expert recommendations by the Gold Delegation, the Preparatory Commission of Experts

[1] Bank for International Settlements, " Second Annual Report ", May 1932, page 11.

[2] Idem, page 12.

[3] Bank for International Settlements, " Third Annual Report " May 1933, page 11.

and the Sub-Committee on Technical Monetary Problems of the Monetary and Economic Conference have repeated and extended the pronouncements of previous international conferences by stressing the desirability of creating Central Banks in adequately developed countries where they do not now exist, and of fostering close and continuous co-operation between the central banking institutions of various countries. The evolution of central banking practice is one of the most important aspects of the re-organisation of financial machinery now in progress.

Chapter IX.

A WORLD IN DEBT.

A General Problem.

The previous chapters of this *Survey* have described successively the contraction of prices, production, wages, profits, Government revenues, international trade and banking resources. In real goods and services, as well as in monetary values, there has been a progressive shrinkage of economic activity in practically every direction. Private individuals, business enterprises and national Governments are all faced with shrunken incomes and the world as a whole with broken organisation.

In these circumstances, the burdens of indebtedness, in some cases oppressively heavy even before the depression began, have not only become more burdensome, but have developed into awkward and obstructive causes of further deterioration in the economic situation. Illustrations of this fact are so obvious that they need not be multiplied. Heavy external indebtedness, forcing the agricultural countries to restrict their imports and maximise their exports, was a large factor in causing prices to fall. Over-indebtedness, both in agriculture and in manufacturing industry, has crushed profits between falling prices on the one hand and high overhead costs on the other. Debt charges are a principal cause of the budgetary strain that afflicts almost all Governments. The difficulty of transferring debt service from one national currency to another has not only aggravated monetary disorganisation, but has been a prime factor in creating the restrictions that have been imposed on international trade.

It is not intended in the present chapter to discuss the extent to which debt payments of any kind, national or international, governmental or private, were responsible for the financial crisis. That they played a large part, in the circumstances of the period before 1929, in making difficult the maintenance of a

flexible economic and financial organisation is generally admitted. In the previous *Survey* and in other documents, such as the report of the Gold Delegation, attention has been drawn to various aspects of their influence in straining the international financial mechanism and precipitating the crisis in 1929. The purpose of the present chapter is primarily to call attention to the magnitude and complexity of the problems now presented by the existence of such a large volume of indebtedness as was built up before 1929.

While there have been reductions of indebtedness in various directions, particularly among private persons and institutions, other forms, especially of Government debt, have proved difficult to reduce and have in many cases even been increased. This is one of the factors which make for greater inflexibility of economic organisation in such a period as the present. When, for any reason, fluctuations of business activity bring about a general shrinkage of incomes, the debts of Governments, partly because they are so largely on long term, are more difficult to reduce than those of private persons. The great extent to which Government activities increased during the war and post-war period, therefore, and the enormous growth of public indebtedness, aggravated the inflexibility of the economic system. The growth of large-scale business enterprises, in so far as it was financed by debt rather than by equities, worked in the same direction. Not only was the total of debt greater, but it was much more difficult to reduce by the elimination or re-organisation of unsound enterprises. Moreover, the strain on the public finances has caused an increase in the public debt of many countries.

The total nominal value of debt obligations, therefore, has, on the whole, been very little reduced during the depression, but has been maintained at levels which have become excessively burdensome as economic activity has contracted. The current service of these obligations to provide for interest and amortisation represents a much heavier proportion of the resources available to debtors. Even when amortisation payments are reduced or suspended and rates of interest are reduced by agreement or conversion, debt service in most countries and in most enterprises absorbs a much greater share of current income than was contemplated when the debts were contracted. The economic structure of the world has shrunk so greatly and it has proved so difficult to reduce the financial obligations undertaken in more prosperous years that the gap between economic possibilities and financial necessities has become a dominating problem of world economics.

The conflict of economic and monetary theories that has run through all discussions of the depression from every angle reaches

its culmination at this point. There are two main schools of thought, the one insisting that economic activity should be " reflated ", primarily by monetary action to raise prices, so that debt burdens may again become tolerable; the other maintaining that no permanent recovery of economic activity is possible until debts have been written down, not necessarily to the low levels of paying capacity set by the diminished economic activity prevailing at the lowest point of the depression, but at any rate to levels lower than those ruling when the debts were originally contracted. There are many aspects of this conflict of opinion, both theoretical and practical, and the extreme positions on either side tend to yield place to compromise solutions combining some measures of debt reduction with proposals to raise prices and restart economic activity. The conflict of opinion is still important, however, in regard to priorities and methods of solution. Whether debt adjustment is to precede or follow economic improvement and how to proceed in either direction remains a subject of lively controversy both nationally and internationally. The main cleavage on methods of stimulating economic recovery is between those who maintain that such recovery can come only by freeing trade and industry from the excessive restrictions that have been imposed upon them in recent years and those who believe that monetary action can raise price-levels and stimulate economic activity even in present circumstances.

It is not intended here to attempt the impossible task of endeavouring to describe the total debt situation of individual countries. The circumstances differ so greatly from country to country that the situation in each must be the subject of separate examination, which is best made by national experts. One or two examples may perhaps be given to illustrate the fact that, in addition to the problems of international indebtedness which are the main subject of this chapter, domestic debt constitutes a very important and pressing problem almost everywhere.

Estimates of the total of indebtedness varying in completeness are available for a number of countries, but there are great statistical difficulties presented in any attempt to make such estimates precise and avoid double counting. Six recent estimates for the United States by recognised statisticians vary from $155,000 million to $234,000 million.[1]

In Germany, total indebtedness was estimated to amount, at June 30th, 1932, to RM. 91,500 million. This total long- and short-term indebtedness, which omits debts owed within

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[1] Cf. *National Industrial Conference Board Bulletin*, February 20th, 1933.

the main economic groups distinguished below, was distributed in the following way :

Indebtedness of German Economic Groups. [1]

Economic debtor group	Indebtedness June 30th, 1932	Interest according to rates ruling at the end of 1932.
	RM. (000,000's)	
Industry and trade	27,360	1,790
Agriculture [2]	10,650	560
Housing [2].	23,200	1,170
Public authorities	30,250	1,690
Total	91,460	5,210

Similar estimates are not available for earlier years, but the following table, which shows the number of obligations outstanding, [3] gives some evidence of the growth of the indebtedness to the end of 1931 and its stability thereafter :

Date	Obligations outstanding RM. (000,000,000's)
March 31st, 1928	20,968
December 31st, 1929	26,856
December 31st, 1930	30,483
December 31st, 1931	31,317
March 31st, 1932	30,567

The variety and complexity of indebtedness demands careful and detailed investigation in each particular case in the light of the special circumstances of the country concerned ; but the illustrations given above are sufficient to disclose the magnitude of the general problem. Not only national, but municipal and private debt, on long and on short term, held within the country and abroad, must be compared with the shrinkage of national incomes. There are certain developments common to most countries — the general tendency examined in Chapter V for industrial and agricultural debt to increase before the depression, the growth of public debt resulting from the war, and the budgetary strain since the depression, together with a widespread expansion of local government services reflected in increased municipal debt.

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[1] *Wirtschaft und Statistik*, 1. Mai and 1. Juni Hefte, 1933.

[2] Debt to creditors within the same group was, in the case of agriculture, RM. 1,200 million, and housing, RM. 4,200 million.

[3] Of these, RM. 63 milliard are long-term debt.

International Debts and International Economic Equilibrium.

The international, as distinct from the national, aspects of the greatly increased indebtedness which weighed upon the post-war world present a series of problems which demand further consideration. The difficulties that arose in transferring from one national economy to another the payments due on account of foreign debt cannot be considered wholly apart from the distributive conflict referred to in the preceding section ; but they are sufficiently serious in themselves to warrant careful examination. It may well happen, for example, that the main representatives of creditors in an important lending country may be in sharp conflict with other important groups whose interests lie in the stimulation of domestic trade and its protection from imports. Different classes of creditors, particularly those to whom public debts and private commercial debts respectively are owed, may also be in conflict concerning priorities of claims. In such circumstances, when group interests conflict within a country, it becomes difficult to estimate the national interest as a whole or to determine national policy. No attempt is made here, however, to make an estimate of these situations, other than to point out certain elementary and generally agreed conclusions concerning the effects of such conflicts of group interests, and the policies resulting from them, upon the conduct of international economic relations in general.

The main consideration to be borne in mind is that put forward in the previous *Survey* where attention was drawn to the predominantly national organisation of economic production and trade as distinct from the more international and even cosmopolitan organisation of finance. In the next chapter, it is argued that modern economic problems must be considered neither as purely national nor as cosmopolitan, but as arising in a series of national economies which are in shifting equilibrium one with another. The maintenance of international equilibrium through the interaction of the national price-systems (including such important prices as wages and interest-rates) was reasonably effective in the pre-war period when the gold standard provided a common measure of value. The dominance of the London money market enabled it to act as a reservoir and distributing centre of credit, while under a free-trade policy the English market served as an *entrepôt* for international commerce. The relative flexibility of the economic system facilitated the necessary adjustments of national price systems. In this period, great changes took place in the economic organisation of the world, and, in particular, large amounts of capital were transferred from the older industrial

countries to open up and develop first the interior plains of North America and later the South American agricultural countries, the British dominions in the southern hemisphere, and certain Far-Eastern countries. The magnitude of the price changes and therefore of the re-arrangement of production caused, for example, by the opening up of the American wheat lands, the introduction of refrigeration, the development of the South African goldfields, and the rapid rise of Japan as an industrial Power, was half-concealed by the smoothness with which international equilibrium was adjusted through the operation of the pre-war gold standard.

In the post-war period a great many complicating factors were introduced. Among them must be reckoned the rapid expansion of international indebtedness, the effective discharge of which demanded, not only an augmented volume of international commodity trade, but considerable shifts in the relations between national price systems. There arose, however, very great difficulties in adapting either national price levels or national economic organisation to the changed structure of international finance. Balances of payments could not easily be changed from passive to active in the case of debtor countries, or from active to passive in the case of countries whose creditor position had created the necessity of receiving an increased volume of imports in discharge of debt. Such transformations would have required very radical changes in national economic organisation at a time when such organisation was less flexible than it had been before the war.

The true difficulties of this situation were not revealed while a large number of the currencies, particularly of debtor countries, remained independent, exchanges fluctuated, and inter-governmental debt payments were not settled. As one currency after another returned to the gold standard and exchange parities once more became fixed, while successive debt settlements were arranged, the strain upon the newly restored mechanism for maintaining international financial equilibrium became greater. For a few years between 1925 and 1929 the payment of international financial obligations was rendered possible without drastic re-arrangement of national economies by the free flow of new capital exports, largely from the United States, to the debtor countries. When this export of capital began to fail in 1928-29, the pressure on the balances of payments of the debtor countries depressed prices, the credit expansion broke and the strain of international adjustment finally caused the collapse of the international monetary mechanism.

When this development occurred, the full complexity of the problems involved in the maintenance of international economic

and financial equilibrium were revealed by the variety of forces which it was necessary to consider in any proposals once more to stabilise the exchange ratios between different currencies. Not only technical monetary problems, such as the use of gold in the monetary systems, credit policies, reserve ratios and interest rates, but more general economic considerations, such as the effect of different exchange ratios upon export industries, as well as upon domestic price levels, and therefore upon wages and production costs, became a matter of serious concern.

In face of such complicated problems, there was a general retreat from international economic co-operation, and measures of national economic defence were hurriedly improvised to protect national industries and standards from international competition. The aggregate effect of these measures was still further to restrict economic activity and depress prices, particularly in those commodities exchanged between national economic systems, so that the discharge of international financial obligations became still more difficult. The volume of international debt obligations, which was too great for international trade to carry except when lending was pursued as freely as it was between 1925 and 1929, was still more difficult to discharge in 1932, when lending had virtually ceased and international trade had fallen to little more than one-third of its value in 1929.

It was not long, therefore, before exceptional measures had to be taken to deal with the debt service, which could no longer be met either by the export of goods or by the contraction of new loans. The moratorium proposed by President Hoover in June 1930 for the suspension of inter-governmental debt and reparation payments for one year was only the beginning of a long series of measures, which were quickly extended to private as well as public international debts. The remainder of this chapter gives in broad outline a summary of the principal measures adopted ; but it is being written *in medias res* before any general or permanent solutions have been found and while temporary arrangements in particularly acute cases are all that can be recorded.

Inter-governmental Indebtedness.

The inter-governmental indebtedness arising from the war of 1914-1918 has been the subject of numerous official conferences and diplomatic exchanges during the last fifteen years. The official and unofficial publications both on reparation payments and on war debts form a voluminous literature to which it is

unnecessary to add much here.[1] Both politically and economically, the existence of these large inter-governmental obligations consequent upon war expenditures were a very disturbing factor in the post-war years. Successive settlements and revisions, both of war debts and of reparation payments, occupy a large place in the diplomatic history of the first post-war decade ; but the full economic effect of such arrangements was not revealed until international lending began to diminish rapidly in the months before the New York Stock Exchange crisis precipitated the depression in the latter part of 1929.

While historically and legally separate, payments on account of war debts and of reparations present economic problems largely similar in character, and as early as June 1931 were linked together by official action in which the initiative was taken by the principal creditor Government. The moratorium proposed at that time by President Hoover applied to both sets of payments. It is not intended here to examine the earlier history of either question, or to analyse the extent to which the payments actually made up to the end of June 1931 were responsible for the derangement of international trade and finance that lay behind the depression. It may be pointed out, however, that successive debt settlements after 1923 and the reparation (Dawes) agreement in 1924 provided for payments on inter-governmental account during the years when the international monetary system was being restored by the return of one country after another to the gold standard. At the same time as an effort was made to re-establish the mechanism by the utilisation of which national economies had been kept in equilibrium, that mechanism was loaded with the additional burden of transferring from one currency to another exceptionally large amounts for which there were no offsetting commodity transactions. As long as credit remained good and international loans were freely extended, these payments were transferred, though it has been maintained that such transferences were among the causes which led to excessive strain on the monetary systems. There were no important revisions of the debt settlements ; but in 1929 the Young plan was worked out as a substitute for the 1924 settlement of reparation payments. Before the Hague agreements in 1930 supplemented the Young plan, however, the depression had begun. Not only had international lending shrunk greatly, but prices had fallen and the quantum of international trade also had

[1] Cf., *e.g.*, among recent works, Denys P. Myers, " The Reparations Problem ", Boston World Peace Foundation, 1930 ; John W. Wheeler-Bennett, " The Wreck of Reparations ", London, Allen and Unwin, 1933; and Harold G. Moulton and Leo Pasvolsky, " War Debts and World Prosperity ", Washington, The Brookings Institution, 1932. A convenient short historical summary of the war debts is contained in " The War Debts ", Supplement to *The Economist*, London, November 12th, 1932.

been reduced, so that the possibilities of transferring large sums on inter-governmental account were much diminished. Payments were continued, however, until threatened financial collapse in Germany led to the Hoover moratorium in June 1931.

The large sums affected by the moratorium were given in the preceding *Survey.*[1] For the year ending June 30th, 1932, the United States suspended net receipts amounting to £53,600,000; France (£16,100,000) and the United Kingdom (£9,700,000) were the principal other net creditors to forgo payment in that year, while Germany, as the chief debtor, was relieved to the extent of £77,000,000. Several of the smaller countries were greatly affected also by the moratorium, Yugoslavia, for example, losing net receipts to the value of £3,300,000, while Australia and New Zealand were relieved to the extent of £3,100,000 and £1,420,000 respectively. The moratorium was not renewed when it expired at the end of June 1932, and the problems of reparation payments and war debts had therefore to be dealt with separately as before.

Brief reference was made in the preceding *Survey* to the investigations into and developments of the reparation problem that took place during 1931-32, while the Hoover moratorium was in force.[2] Following the London Conference (July 29th to 23rd, 1931), the Bank for International Settlements set up a Committee of experts to enquire into the financial position of Germany. This Committee met at Basle on August 8th. A Creditors' Committee also met from August 14th to 19th and arranged the first standstill agreement on private commercial debt. For a time, the situation seemed to improve in Germany ; but after the abandonment of the gold standard by the United Kingdom in September, renewed weakness was evident, and, on November 19th, the German Government asked the Bank for International Settlements to convene the Consultative Committee provided for under the Young plan. This Committee met at Basle on December 7th, and reported that, after the expiration of the Hoover moratorium, Germany would not be able to resume payment of the conditional annuities. In February, the standstill agreement on private commercial debt was renewed.

The next stage of development was the convocation of the Lausanne Conference on June 16th, 1932. The final agreement reached at Lausanne has already been summarised in Chapter I. The agreement, by an understanding secretly reached during the Conference but revealed shortly afterwards, was not to "come into final effect until after ratification " ; but it was made clear by a declaration of the President at the plenary session on July 8th that, " in the event of any inability to fulfil this agreement

[1] Pages 256-7.
[2] League of Nations *World Economic Survey*, 1931-32, pages 70-82 and 307-8.

and its annexes, a further conference will be held ". No further development occurred up to the time of writing (July 1933), and the situation in regard to reparation payments therefore remains as it was left at Lausanne. No further payments have been made; but the agreement has not been ratified and has not therefore come into final effect.

Interest during 1932 and 1933 shifted to the Inter-allied debt problem. The first payments after the Hoover moratorium expired fell due on December 15th, 1932. Most of the debt settlement agreements contained provisions for postponement of capital payments for limited periods [1]; but the ninety days' notice necessary for such postponement was not given in September. In early November, the presidential election was held in the United States and shortly afterwards the United Kingdom, followed by the other debtor Governments, began an exchange of notes with the United States Government. This exchange included an exposition of the case for cancellation on general grounds of world prosperity contained in the British note of December 1st. [2] The situation was complicated by the fact that the new President did not take office till March 1933 and also by a joint resolution passed by Congress on December 22nd, 1931, when ratifying the Hoover moratorium, declaring that it was " against the policy of Congress that any of the indebtedness of foreign countries to the United States should be cancelled or reduced ".

The date of payment, December 15th, arrived without any agreement being reached, whereupon the United Kingdom Government paid its obligation (the largest due at that date) in full by transferring gold to the value of $95,500,000 purchased from the Bank of England, at the same time making a unilateral declaration that such payment was to be regarded as an instalment in view of a final settlement. Italy, Czechosloslovakia, Finland, Greece, Latvia, Lithuania, Roumania and Yugoslavia also paid their instalments; but no payment was made by France, Poland, Belgium, Estonia and Hungary.

This was the situation when, in April 1933, the President of the United States invited representatives from the principal countries concerned to participate in personal conversations at Washington. The scope of these conversations, which were conducted individually and covered, not only war debts, but other economic and political questions, was extended to other countries than those concerned with war debts. The discussions were secret, but successive official *communiqués* indicated the general nature of the subjects discussed, which included the convocation of the Monetary and Economic Conference for June 12th, and disarmament.

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[1] Cf. *Economist, loc. cit.*, page 6.

[2] Cmd. 4210 (1932).

As the date of the next payment (June 15th) drew near, it became clear that no agreement had been reached upon war debts and the Conference opened in London without any decision on this question. After secret negotiations, however, the Chancellor of the Exchequer announced, on June 14th, a compromise arrangement by which a token payment was made on account of the British instalment. The British telegram of June 13th repeated the declaration made in December that payment was not regarded as a resumption of the annual payments but " as a capital payment of which account should be taken in any final settlement ". The sum paid was $10 million in lieu of the amount due ($75,950,000), and payment was made in silver at the rate of 50 cents per ounce in virtue of a provision in the Farm Relief Act, signed on May 12th, 1933. The necessary silver for the payment was purchased from the Indian Government. As the current market price of silver was 36 cents per ounce, the actual sterling cost of the payment was £1,156,000. [1] The President of the United States, in acknowledging receipt of this token payment, intimated that he had "no personal hesitation in saying that I do not characterise the resultant situation as a default ". [1]

Of the other debtor countries, Finland paid its instalment in full, Italy, Czechoslovakia and Latvia followed the British lead in making a token payment, while the other countries did not pay. The amounts due and the payments made on June 15th, 1933, are shown in the following table :

Country	Full amount due $	Amount paid $
United Kingdom [2]	75,950,000	10,000,000
Italy [2]	13,545,437	1,000,000
Czechoslovakia	1,500,000	180,000
Finland	148,592	148,592
Latvia	119,609	6,000
Roumania [3]	1,000,000	29,100
France	40,738,567	—
Belgium	6,325,000	—
Poland	2,953,362	—
Estonia	228,182	—
Hungary	32,025	—
Lithuania	123,535	—
Yugoslavia	275,000	—
Greece [4]	150,000	—

[1] Cf. London *Times*, June 15th, 1933.
[2] Payments made in silver.
[3] Roumania later paid $25,000.
[4] Due on July 1st.

In the meantime, the payments due to the United Kingdom from the Allies and certain Dominions were not demanded either in December 1932 or June 1933. When it became known that the United Kingdom would pay the December instalment of its debt to the United States, the New Zealand Government formally offered to pay its instalment to the United Kingdom, but the latter preferred not to accept it.

At the time of writing (July 1933), no further developments have occurred, and negotiations have not begun either in respect of the next instalment due on December 15th, 1933, or of a final settlement.

The Magnitude of International Indebtedness.

Attempts to estimate totals of world international indebtedness meet with a great many statistical difficulties. In spite of considerable progress in recent years, national statistics are still very incomplete, and only a few countries possess complete census figures of foreign indebtedness. Generally, the estimates are based on capital issues and redemptions and are liable to a considerable margin of error. In some countries, it is the market value of the claims, but in most countries, including many of the most important, it is the nominal value which is given. Fixed property and shares are generally included in the estimates in such a way that exclusion is impossible without recourse to the original data in each case.

The most complete collection of co-ordinated statistics concerning international debts and claims of individual countries, and the interest payments on such debts and claims, is available in the League of Nations *Balances of Payments*, 1930, [1] and *Balances of Payments*, 1931-32. [2] On the basis of the information given in these publications as to the foreign claims of twenty-four countries and estimates of the situation in the remaining countries, the total gross international indebtedness of all countries on account of fixed-interest securities, but excluding direct industrial investment, on both short and long term, at the end of 1932, may perhaps be roughly estimated at a nominal value of about gold $35,000,000,000. [3]

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[1] Geneva, 1932.

[2] The present text incorporates some information from the 1931-32 volume, which will shortly be published.

[3] The most important creditors are the United Kingdom (which is creditor for about 25 per cent of the above figure), the United States (22 per cent), France (above 10 per cent), Switzerland and Netherlands (5 per cent each), Germany, Canada, Belgium, Japan, Sweden, Czechoslovakia and Spain.

The political debts, which, according to the German Institut für Konjunkturforschung, [1] had, after the Lausanne agreement, a present value of gold $9,000,000,000, are not included in the above figure. [2]

The main and almost the only utility of this estimate, and those quoted in the footnote below, lies in demonstrating the magnitude of the capital obligations expressed in terms of moneys that have greatly appreciated in value.

The annual interest and amortisation payments due on the total world international debt may be conservatively estimated at $2,000 to $2,500 million. It is difficult to estimate any more precise figure on account of the considerable and growing repatriation of the external bond issues of many countries, against which must be set sales of domestic issues to foreign buyers. This is a large amount to be transferred between national currencies. The impossibility of payment in any other way than by goods is obvious from the fact that the amount is about 20 per cent of the world's monetary gold stocks, and more than the total monetary gold stocks of all debtor countries. It is significant, on the other hand, to observe that the value of the import trade of the world has fallen from gold $35,600 million in 1929 to only $13,900 million in 1932.

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[1] *Wochenbericht des Instituts für Konjunkturforschung.* The present value of all future annuities was calculated on the assumption of an interest rate of 5 per cent. From this amount the debt of Russia is excluded.

[2] The German Institut für Konjunkturforschung (*Wochenbericht,* 1932-33, page 215) has estimated the total international indebtedness (including political debts) as RM. 200,000 million (gold $48,000 million), mainly on the basis of statistics of international public debt. Professor Hirsch (*Weltwirtschaftliches Archiv,* March 1933, page 327) estimates the total world international indebtedness at RM. 307,000 million (gold $73,000 million). This figure includes, however, fixed property and shares owned abroad, and the debt of the Russian empire (RM. 17,000 million).

Total Foreign Gross Indebtedness of Certain Countries.
Gold $(000,000's). [1]

Country	Date	Total debt	Annual interest due	Total debt and direct investment	Annual interest, dividends, profits, etc.
Germany	Sept. 1932	4,670	250	5,860	310
Canada	Jan. 1930	.	.	6,125	273
Australia	1930	.	.	3,650	185
Argentine	1931	.	.	.	118
China.	1931	763	56 [2]	3,300	155 [2]
India	1931	.	.	.	84
Union of South Africa	1931	.	.	.	69
Japan	Dec. 1929	1,150	48	1,280	52
Dutch East Indies	1932	.	36	.	49 [3]
Poland	1930	.	.	1,130	49
New Zealand . .	March 1932	.	.	750 [4]	30
Roumania. . . .	1932	965	41	.	.
Hungary	Dec. 1931	752	35	.	39
Greece	1932	472	.	515	27 *
Czechoslovakia .	Dec. 1931	318	23	356	26
Norway	Dec. 1932	373	15	427	17

It is not possible to give a complete record of the distribution of international indebtedness in the world according to debtor countries, but the above table, which shows the total foreign debt of a number of debtor countries, may indicate where the most important debtors are to be found.

It has proved impossible in most cases to separate the total of direct investment from that of borrowed capital. Fairly adequate estimates exist, however, of public international indebtedness. The following estimates have been compiled by the German Institut für Konjunkturforschung :

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* 1931.

[1] Where no other source is indicated, see League of Nations *Balances of Payments*, 1930, and *Balances of Payments*, 1931-32, Geneva, 1932 and 1933.

Australia : R. Wilson, *Capital Imports and Terms of Trade*, Melbourne, 1931.
China : Remer, *Foreign Investments in China*, Macmillan Company, New York.
Japan : Moulton, *Japan*, Brookings Institution, Washington, 1931.
Roumania : Report by the Stresa Conference (League of Nations document C.666.M.321.1932.VII).

[2] These figures represent estimated payments (not amounts due) in 1930.

[3] Dutch East Indies : interest, dividend and profits paid in 1929 were $132 million.

[4] New Zealand : The figure does not include short-term debt. At least $615 million represent long-term debt as distinct from direct investment.

Public International Indebtedness, excluding Political Debts.
Gold $(000,000's). [1]

Country	State marketable debt			Debt of other public authorities	Total public debt
	Long term	Short term	Total		
Australia	2,525.3	—	2,525.3	102.0	2,627.3
India	1,638.3	—	1,638.3	—	1,638.3
Germany	617.4	84.7	702.1	566.1	1,268.2
Canada	577.5	—	577.5	961.9	1,539.4
Brazil	675.4	—	675.4	571.8	1,247.2
South Africa . . .	784.4	—	784.4	204.8	989.2
Japan	696.9	—	696.9	116.8	813.7
New Zealand . .	606.7	—	606.7	48.2	654.9
Argentine	452.7	—	452.7	278.2	730.9
Mexico	203.8	284.1	487.9	4.4	492.3
Dutch East Indies	—	—	—	478.7	478.7
Poland	181.7	—	181.7	22.8	204.5
Roumania	396.3	—	396.3	.	396.3
Belgium	314.0	27.7	341.7	10.0	351.7
Hungary	215.1	21.1	236.2	137.4	373.6
Greece	322.4	9.7	332.1	.	332.1
Yugoslavia . . .	311.2	—	311.2	7.0	318.2
Chile	301.5	—	301.5	26.7	328.2
Austria	199.9	11.9	211.8	45.9	257.7

It is clear that the total amount of external public debt must be considered in relation, not only to population, natural resources, economic efficiency and the type of expenditure for which loans were sought, but also in relation to the part played by the public authorities in economic life and to the possibilities of domestic borrowing. The statistics given should not be construed, therefore, as evidence of over-borrowing. The pressure upon the countries which produce large quantities of raw materials and foodstuffs for export has been very great, not only because the prices of those commodities fell much more than the average, but also because the agricultural countries are prominent among those which have the largest external debt payments to meet. The greater part of their obligations, it should be noted, consists of long-term debt which is not easily reduced or converted.

Calculations of the distribution of debt claims among creditor countries are rendered difficult by the fact that the holdings of marketable securities are readily shifted from one financial centre

[1] *Wochenbericht des Instituts für Konjunkturforschung,* March 22nd, 1933.

to another. [1] In addition to the rapid transfers of short-term credits which have been so marked a feature of recent years, financial insecurity has caused a great deal of speculative buying of securities.

The calculations of total international indebtedness given on page 262 exclude direct industrial investment. Studies of this problem demand prolonged investigation in each particular case. [2] There has been much buying of international industrial securities also in recent years.

It is practically impossible in such circumstances to bring up to date reasonably accurate estimates of the amounts of capital invested abroad by nationals of the main creditor countries. It has been estimated that British loans to dominion and foreign Governments, loan capital in British companies operating abroad and in foreign and colonial enterprises amounted at the end of 1932 to £2,222 million. [3] An official calculation of United States portfolio investments abroad at the end of 1930 amounted to $7,834 million, of which $6,124 million were Government, municipal and Government-guaranteed loans, and the remainder ($1,700 million) private corporate issues. [4] If deductions are made for subsequent international security movements, and for shares included in the last-mentioned figure, the long-term bonded debt to the United States at the end of 1932 may be estimated at something in the neighbourhood of $6,500 million. [5]

The estimates given above may also be utilised to indicate roughly the proportion which various debts represent of the total. Non-political public debt of central and local Governments has been estimated by the Institut für Konjunkturforschung as amounting to $19,000 million, or a little less than the estimated long- and short-term commercial debt, which amounted to about $21,000 million. Only a comparatively small proportion (probably

[1] Cf. Bank for International Settlements, " Third Annual Report ", Basle, May 8th, 1933, page 12.

[2] Cf., *e.g.*, C. F. Remer, " Foreign Investments in China ", New York, Macmillan Company, 1933.

[3] Sir Robert Kindersley, " British Foreign Investments ", *Economic Journal*, March 1933.

[4] *Trade Information Bulletins* 767 and 803.

[5] Information for other creditor countries is scanty. There are estimates of the balance of payments in France which throw light upon interest receipts and capital movements, but no recent estimates of total investments abroad. The National Bank of Switzerland estimated the total of that country's long-term investments abroad at the end of 1930 at 6,500 million Swiss francs (*Bulletin Mensuel de la Banque Nationale*, March 14th, 1931). The League of Nations *Balances of Payments* indicates the source of information for other countries.

The Institut für Konjunkturforschung has estimated that the external public debts, including the debts of local authorities, but excluding political debts, was distributed according to creditor countries as follows, in gold $ (000,000,000's omitted):

United Kingdom	United States	France	Netherlands	Switzerland	Total
10.3	5.2	0.9	0.6	0.2	19.3

less than 5 per cent) of the public debt is on short term ; but a much larger proportion of commercial debt is for short periods. The Bank for International Settlements has estimated the total international short-term indebtedness in the world at the end of 1932 as 30,000 million Swiss francs (about $6,000 million), of which approximately half " represented liabilities which were, in fact, governed by standstill agreements, moratoria, exchange restrictions, etc." [1] If allowance is made for governmental short-term debts, it appears probable that short-term loans account for about 25 per cent of the outstanding commercial debt. These short-term debts represent partly commercial borrowings ; but consist largely of moneys held by commercial banks on short-term deposit.

The country for which debt statistics are most adequate is Germany, where successive investigations have yielded a great mass of data. [2] The general movement of non-political international debt in that country may be summarised in the following table :

Non-political International Indebtedness in Germany. [3]
RM.(000,000,000's).

	July 31st, 1931	November 30th, 1931	February 29th, 1932	September 30th, 1932
Short-term debt	13.1	10.6	10.1	9.3
(including debt subject to standstill agreements) . .	(6.3)	(5.4)	(5.0)	(4.3)
Long-term debt	10.7	10.7	10.5	10.2
Total	23.8	21.3	20.6	19.5

Of the total indebtedness at the end of September 1932, different types of creditors in foreign countries held the following amounts of long- and short-term debt :

RM.(000,000,000's).

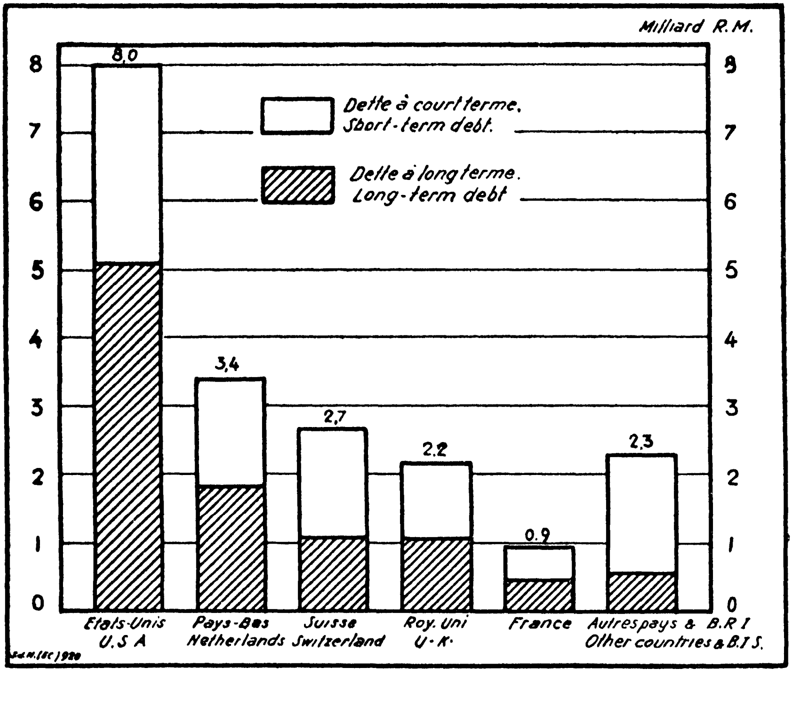
	Long-term	Short-term
Banks	1,234	6,442
Financial companies	669	524
Traders and industrialists .	203	1,563
Other creditors	8,075	818
Total	10,181	9,347

[1] Bank for International Settlements, " Third Annual Report ", Basle, May 8th, 1933, pages 11 and 12.
[2] *Wirtschaft und Statistik*, 1. Mai Heft, 1933.
[3] The figures include only those groups of debt which were included in the census of September 1932.

The distribution among creditor countries is shown by the following diagram and table :

Distribution of German Non-political External Debt at September 30th, 1932.

RM.(000,000,000's).



Creditor country	Long-term	Short-term	Total
		RM.(000,000,000's).	
United States	5,118	2,898	8,016
Netherlands	1,868	1,559	3,427
Switzerland	1,096	1,611	2,707
United Kingdom. . . .	1,060	1,171	2,231
France	465	399	864
Other countries and B.I.S.	574	1,709	2,283
Total	10,181	9,347	19,528

An incomplete summary table of short-term indebtedness in some other European countries may perhaps be added in order to show the general nature of the problem.

Short-term Indebtedness of Certain European Countries.[1]
$(000,000's).

Country	Date	Short-term indebtedness of: Central Government	Local authorities	Central Bank	Other banks	Other debtors	Total
Austria	IX. 1932	14.1	0.3	121.9		19.4	155.7
Hungary	XI. 1931	42.8	21.8	25.3	106.7	124.0	320.3
Bulgaria	XII. 1931	4.2	3.4	1.1	10.3	23.4	42.4
Poland	XII. 1931	0.4	—	5.1		27.9	33.4
Roumania	1932	.	.	13.5	23.7	41.9	79.1
Denmark	XII. 1932	.	—	25.0		36.2	61.2
Finland	XII. 1932	7.5	1.4	4.7	24.4	17.5	55.5
Norway	I. 1933	2.2			19.7	106.9	128.8
Germany	IX. 1932	148.0		193.6	918.4	963.3	2,223.3

THE PROGRESS OF DEBT ADJUSTMENT.

From the information given in the preceding section, it should be clear that the problems of international indebtedness are not only complex but vary a great deal from country to country. The freezing of short-term debt is most difficult in certain European and South American countries, and is greatly complicated by the measures of exchange control which have been found necessary to maintain currency stability. In most of those countries and in a number of others, the external payments on account of long-term debt have also been interfered with by the depression, and a series of temporary expedients

[1] Austria: League of Nations, " Financial Position of Austria, Third Quarter 1932 " (C.780.M.368.1932.II.A).
Hungary : *Revue Hongroise de Statistique*, August 1932.
Bulgaria : *Bulletin Mensuel de la Banque Nationale*, February 15th, 1932.
Poland : *Informations Statistiques* 1932, page 273.
Roumania : Report by the Stresa Conference (League of Nations document C.666.M.321.1932.VII).
Denmark : *Statistiske Efterretninger*, May 1933.
Finland : Nordiska Föreningsbanken, *Unitas*, February 1933.
Norway : *Statistiske Meddelelser*, Nr. 4-5, 1933.
Germany : *Wirtschaft und Statistik*, 1. Mai. Heft, 1933.

have been adopted to relieve the strain on the balance of payments.

The pressure of the external debt service upon the weaker debtor countries was heavy even before the acute phase of the financial crisis began in the early summer of 1931 ; but the currency instability provoked by that crisis, the violent movement of short-term funds from one centre to another, hurriedly improvised trade restrictions and foreign exchange controls rendered inevitable a series of emergency debt suspensions and partial or total defaults. These emergency measures followed one another in rapid succession during the second half of 1931 and continued, and were even added to, in 1932 and the first months of 1933 ; but the relief obtained from the depreciation of sterling became clearer when the financial crisis eased off in the summer of 1932. At the same time, there set in a series of adjustments by which the debt burdens of many countries were further lightened.

It is a hopeless task to attempt any exhaustive review of the different measures adopted in the various countries, and neither possible nor useful to make a statistical computation of the total amount of debt affected by them. As the illustrative examples given later indicate, each country has its own set of problems which, indeed, need to be considered separately in the case of each transaction. The whole trend of policy has been against generalised solutions. Negotiations have taken place in certain cases between debtor Governments and representatives of creditors. The general problem has also been discussed at successive international conferences, notably at Stresa and London. These discussions are reviewed later in this section. Meantime, it is sufficient to point out that the principle upon which such discussions have proceeded is that stated in the draft annotated agenda of the Monetary and Economic Conference that " the settlement of this question is essentially the concern of the creditors and the debtors themselves ". [1]

It is convenient first to illustrate the difficulties that arose in the payment of short-term debt obligations. Short-term credits are normally extended primarily to finance trade and particularly international trade. Commodities are shifted from producer to merchant and from merchant to consumer — often in widely separated countries — by means of credit advanced from leading financial centres. Thus the farmer who delivers cattle to a refrigerating concern in the Argentine, the exporter of manufactured goods from Germany or Austria, the dairy-farmer who delivers cream to a co-operative factory in New

[1] Draft Annotated Agenda, page 22.

Zealand, are enabled to draw cash payments for their produce. These payments are made possible either by advances against future sales of the finished product or by discounting bills of exchange which will not be met until their maturity after delivery of the goods. The credit needed for these purposes is advanced by bankers in the great financial centres until the consumers complete the chain of transactions by paying for their purchases. There is normally, therefore, a considerable amount of international short-term commercial debt constantly being liquidated and renewed. In addition to such commercial debt, there is a small amount of governmental short-term borrowing in foreign money markets.

During the boom period and the earlier years of the depression there was, on the other hand, a considerable accumulation of short-term foreign balances by those countries which either had gold-exchange standard currencies or made considerable use of foreign exchange holdings in their Central Bank reserves. The liquidation of these foreign balances after the financial panic, which was described in Chapter VIII, considerably reduced the amount of short-term indebtedness in the world ; but this liquidation was accomplished mainly by the creditor countries which remained on the gold standard.[1] It did not relieve the position of the debtor countries which had large short-term indebtedness and small short-term foreign assets to set against them.

In a few debtor countries, short-term advances had been made by the more powerful Central Banks and the Bank for International Settlements to enable the Central Banks to withstand currency drains in the early part of the depression. These advances were not a source of difficulty, since they were readily renewed ; but considerable difficulty arose from the fact that the commercial banks in some of these countries were caught with heavy short-term obligations and illiquid long-term assets.

When the financial panic in the early summer of 1931 was followed by a widespread abandonment of the gold standard, protective trade restrictions were redoubled and international trade decreased further both in quantum and in value. Amounts of short-term credit that had been adequate to finance trade at its former value became redundant, but in many cases impossible to repatriate. At the same time, a considerable amount of short-term credit unable to find investment accumulated and was apt to be transferred rapidly from one financial centre to another. The transfer problem first became acute in connection with these short-term debts, and its first manifestations were

[1] Cf. also Bank for International Settlements " Third Annual Report, April 1st, 1932, to March 31st, 1933 ", Basle, May 8th, 1933, page 10.

naturally in those countries which, besides having excessive commercial obligations, were burdened also with short-term advances to commercial banks. In the summer and autumn of 1932, therefore, it became necessary to devise temporary arrangements for the suspension of transfers primarily on account of commercial and banking short-term debt. Defaults, partial or complete, transfer moratoria, suspensions of sinking funds and interest payments on long- as well as short-term debt, together with all the accompanying phenomena of blocked accounts, developed later as the depression became still worse towards the end of the year.

It is convenient for purposes of illustration to deal first with the arrangements made to cope with the situation in Germany, which, though not the first in point of time, was of the greatest magnitude and presented in many respects the greatest dangers to international economic equilibrium.

The London Conference (July 20th to 23rd, 1931) was followed by the appointment by the Bank for International Settlements of an expert Committee to enquire into the financial position of Germany. That Committee met at Basle on August 8th, 1931, and concurrently a Committee of creditors — including representatives of American, British, Swiss, Dutch, French, Swedish, Italian, Belgian, Danish, Norwegian and Czechoslovak banks — arranged the first German standstill agreement, by which payments were suspended on account of short-term debt amounting to about RM. 6,300 million (including the " theoretical " sums covered by the agreement but not actually registered to the amount of roughly RM. 300 million). The agreement, which came into force on September 17th, 1931, was for a period of six months dating from September 1st. The mass of debt covered by this agreement consisted of a great number of obligations of different sorts and subject to different conditions, payments on all of which were suspended. A large amount of short-term indebtedness, however, was not subject to this agreement and much of this was liquidated in the usual way. [1]

Before the expiry of this agreement, a new arrangement was made in February 1932 extending the standstill arrangements till the end of February 1933. Ten per cent of the outstanding amounts was, however, paid at that time. In February 1933, the agreement was renewed for a further twelve months till the end of February 1934, a further 5 per cent being repaid. By this time, however, the amount outstanding was reduced

[1] The standstill agreement related to banking investments in Germany, the total amount of which was RM. 7,600 million. The total short-term foreign debt in July 1931 was estimated at RM. 13,100 million.

to about RM. 3,800 million (plus the RM. 300 million " theoretical " amounts), partly by the percentage repayments mentioned above, partly by other forms of repayment. By various means, including offsetting transactions not requiring the transfer of foreign exchange, debtors had found ways of meeting a considerable part of their obligations. Tourist and similar expenditures in Germany had been met by drawing upon balances in German banks, capital assets were purchased and other forms of converting the short-term debt were utilised, while in certain cases " supplementary exports " beyond those for which foreign exchange received in payment had to be surrendered were used as payments for the debts. [1]

The original standstill agreements were complicated by many provisions concerned with related problems, such as disposition of balances held in German marks, security on the loans, interest rates and payments. They were supplemented also by another standstill agreement concluded on April 9th, 1932, covering RM. 247 million of short-term debts owed by eight German Federal States and twenty-six municipalities and districts. Ten per cent of the amount due, less repayments made after July 1931, was paid on the signature of the agreement. Interest rates were reduced from an average of 9 per cent to a basic rate of 6 and a possible maximum of 8 per cent. This agreement was renewed in March 1933, on a further repayment of 5 per cent, half in March and half in October, while the basic rate of interest was reduced from 6 to 5 per cent.

There were interest reductions also under the main standstill agreement, in April and July 1932 ; but, when the agreement for the second time was renewed for twelve months in March 1933, the creditors contested further interest reductions, which however, were lowered again to 4¾ per cent for cash credits, and to 3 ⅛-4½ per cent for acceptances given to banks, and to 5 ¾ per cent for cash credits and 5 per cent for acceptances given to industrial and commercial firms. While, as was stated above, the repayment of capital on this renewal was only 5 per cent, the reductions of interest rates and of indirect methods of payment steadily lowered both the burden of debt service and the outstanding capital amount.

The Austrian standstill agreement on June 16th, 1931, was the first of the series. Foreign creditors of the Credit-Anstalt agreed to a suspension of payments for two years on condition that the Austrian Government guaranteed the debts amounting

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[1] Cf. Bank for International Settlements " Third Annual Report, April 1st, 1932, to March 31st, 1933 ", Basle, May 8th, 1933, page 12.

to 500 million schillings ($71 million). A second standstill agreement between other Austrian banks and their foreign creditors, including a system of amortisation, covered debts amounting to 240 million schillings. When this second agreement was renewed on January 20th, 1932, the amount outstanding had fallen from 240 to 114 million schillings, and a further 6 millions was repaid in the first half of 1932. The agreement was further renewed early in 1933 till January 15th, 1934.

An agreement with the foreign creditors of the Credit-Anstalt had been initialled on January 21st, 1933, but it was found necessary to negotiate a modification of this agreement, and, on May 12th, the final arrangements were formally ratified by the Austrian Government. Liabilities of the Credit-Anstalt amounting to 400 million schillings were to fall due on June 1st; but the funding of these liabilities, together with the improved state of the Austrian public finances, the re-organisation of the banking system, the renewal of the second standstill agreement till January 15th, 1934, and the prospect of a further loan, relieved the pressure on the Austrian balance of payments. The discount rate of the National Bank was reduced on March 24th from 6 to 5 per cent. Private clearing agreements were gradually extended until the National Bank was able, on April 6th, virtually to relinquish control of foreign exchange. In the course of this operation, the depreciation of the currency was recognised in practice, whereupon the rate ruling in commercial transactions improved substantially. [1]

The Hungarian standstill arrangements proved more difficult to negotiate ; but, on November 8th, 1932, almost a year after a moratorium had been imposed on transfers, an agreement was concluded with British and American investors. Individual arrangements were made also with creditors in certain other contries. On February 1st, 1933, a new standstill agreement for one year was agreed to by American, British and Swiss creditors. By this time, the methods of administering standstill agreements had been standardised, and the Hungarian agreement contained the usual provisions concerning interest, repayment in pengö at the creditors' option, together with the possibility in certain circumstances of utilising these blocked pengö accounts for payments within Hungary, for example, by tourists, 5 per cent reduction of the capital and further voluntary repayment subject to the assent of the National Bank.

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[1] More detailed information concerning the financial position in Austria, Hungary, Roumania, Bulgaria and Greece may be found in the regular reports of the Financial Committee to the Council of the League of Nations and in the quarterly reports of the League representatives in Austria, Hungary and Bulgaria.

The history of these standstill arrangements shows how a difficult debt situation has gradually, by goodwill on both sides, approached a manageable solution. Though the negotiations proved arduous and complicated, the good faith of the debtors combined with reasonable concessions on the part of the creditors has already brought about a substantial diminution of short-term indebtedness and an even greater reduction of the annual interest burdens. The standstill agreements, it should be made clear, are in respect mainly of banking credits and cover indebtedness contracted mainly in Germany and to a less extent in Austria and Hungary, the countries where short-term borrowing by banks was most pronounced in the early stages of the depression.

The transfer difficulties in respect of short-term debt are well illustrated also by the situation that arose in the Argentine. For thirty years, from 1899 to 1929, the external value of the peso was stabilised by the operations of the Conversion Office, which, in effect, administered a gold-exchange standard system based on London. The operations of the Conversion Office were suspended on December 29th, 1929, in consequence of a considerable flight of capital. The internal and external value of the peso depreciated until, in October 1931, the latter was 82 per cent below the parity formerly maintained. On October 10th, 1931, the Government instituted a system of exchange control which had the effect of stabilising the currency, but in doing so froze a certain amount of short-term debt for which transfer resources could not be arranged. Available foreign exchange was allocated to importers, to national, provincial and municipal financial services, to residents abroad, and to public utility and private companies. The latter suffered most heavily, and some of them were unable to meet their obligations abroad although they had earned the necessary profits in Argentine currency. On May 1st, 1933, however, an agreement was entered into with Great Britain whereby a loan was made available to provide the means of liquidating transfer arrears, and at the same time mutually satisfactory arrangements were made for future transfers. In effect, the short-term debt which it had been impossible to transfer was liquidated by a long-term loan issued to the Government. [1]

Short-term debt, however, is the smaller part of the general problem, and the general deterioration of the economic situation during the depression, and especially during 1932 and the early

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[1] Cf. Dr. Guillermo E. Leguizamon, K.B.E., " An Argentine View of the Problem of Exchange Restrictions ", *International Affairs*, July-August 1933, pages 504-517.

part of 1933, rendered inevitable a succession of suspensions of debt service, either in part or as a whole, on both short- and long-term debt of private and public character in many countries. In certain cases, such suspensions applied only to the transference of the debt service, interest and amortisation payments being " blocked " in special accounts held in national currencies. In other cases, there was default, either partial or complete. In the discussion which follows, an effort is made to distinguish these phenomena.

The transfer problem is obviously influenced by the widespread imposition of exchange controls designed to protect national balances of payments and ultimately to safeguard the stability of national currencies. As international trade shrank, the demands of foreign debt service upon the diminishing amounts of foreign exchange available became proportionately greater. The point was soon reached in one country after another where it was impossible to provide the exchange necessary for debt payments. It was, however, eased in many cases, as far as sterling debt was concerned when the United Kingdom abandoned the gold standard and still further eased when the dollar depreciated.

There have been three principal phases of development in the situation. The first, which covers roughly the first years of the crisis to the end of 1931, consists mainly of a series of defaults on the part of weak debtor States, mainly in South America. As successive reports of such bodies as the British Council of Foreign Bondholders indicate,[1] there is a substantial amount of indebtedness in the world, default on which has been a problem for many years. No adequate study exists either of the proportion of foreign lending which has fallen into default in recent years, or of the methods which have been adopted to deal with such defaults. Since 1929, the arrears of default, both of interest and sinking funds, have accumulated and new defaults have occurred. In the period under consideration, Ecuador, Mexico and Turkey, for example, have not been able to resume payments, while new defaults by central or local authorities occurred during 1931 in Bolivia, Peru, Chile, Brazil, Uruguay, Argentine, Dominica and Colombia. This development continued in the early months of 1932, Nicaragua, Salvador, and China being added.

A new phase was ushered in, presaging the financial panic which broke in the spring of 1932, when in December 1931, Hungary was forced unilaterally to declare a transfer moratorium upon external debt service with the exception of that on the League loan. In this case, the payments were continued in

[1] Cf., *e.g.*, " Fifty-ninth Annual Report of the Council of the Corporation of Foreign Bondholders for the Year 1932 ", London, Council House, No. 17, Moorgate.

Hungarian currency, but could not be transferred to creditors for lack of sufficient foreign exchange. Bulgaria, in April 1932, made an arrangement with the holders of Government loans to reduce the amount of debt service transferred to 50 per cent of the amount due. That percentage was further reduced to 40 per cent after November 1932 and to 25 per cent after April 15th, 1933. In April, Greece, after similar negotiations, suspended the transfer of payments on account of sinking funds and in May reduced the interest payments on public debts transferred to 30 per cent. By agreement with the foreign bondholders in September 1932, interest payments were to be reduced to 30 per cent ; but further controversy arose, and, despite repeated negotiations, no settlement had been reached at the time of writing (July 1933). [1]

In June 1932, Austria suspended the transfer of debt service on all foreign debt, public and private. There was a partial resumption transfer from the beginning of 1933, but on account of the delay in floating the loan provided for in the Geneva Protocol of July 15th, 1932, transfers were again suspended early in the year. [2] In November, Yugoslavia also failed to transfer her debt service and, in January 1933, negotiated a three-year moratorium with her creditors. In January 1933, also Roumania, after consultation with foreign bondholders' associations, suspended, with certain exceptions, amortisation payments. For one and possibly two years, therefore, Roumania agreed to transfer full interest but only a small part of the repayments due on Government loans. At the same time, however, the right was reserved to re-open negotiations with the bondholders if the budgetary receipts for the first five months of the financial year 1933-34 proved unsatisfactory or if the balance of payments did not yield the necessary foreign exchange. Notice was given in July that this right would be exercised. Meantime, defaults had occurred in Costa Rica (December 1932) and Cuba (March), while Paraguay followed in June.

The third phase opened in June, shortly before the Monetary and Economic Conference was convened, by the announcement that Germany was forced to contemplate a transfer moratorium on all her foreign debt except that covered by the standstill agreements. Negotiations began almost immediately in London, and agreement was reached by which interest rates were reduced and repayments deferred upon the debt covered by the standstill agreements. The long-term debt situation was discussed also, and it was agreed that interest should have priority over

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[1] Cf. League of Nations Financial Committee " Report to the Council on Greece", July 8th, 1933 (II. Economic and Financial : 1933.II.A.14).

[2] Cf. League of Nations "Quarterly Reports on the Financial Position of Austria".

amortisation payments, the service of the Dawes loan having absolute priority. The President of the Reichsbank also agreed to give consideration to the request of the creditors that the Young loan payments should follow in priority. A suggestion that the sinking fund payments on the Young loan should be temporarily postponed in order to accelerate the recovery of the exchange position was referred to the Bank for International Settlements. [1]

The position when the Monetary and Economic Conference discussed the problem of international indebtedness in early July, therefore, had entered upon a new phase. Recent defaults, additional to continuing default on the part of several countries, had occurred in Bolivia, Peru, Chile, Brazil, Uruguay, Argentine, Dominica, Colombia, Nicaragua, Salvador, China, Costa Rica, Cuba and Paraguay. Transfer moratoria, accompanied by such measures as reductions of interest payments or suspensions of sinking funds, had been declared in Bulgaria, Greece, Yugoslavia and Roumania. Other transfer moratoria which did not envisage reductions of debt service were in force in Hungary and Austria, while another was under discussion for Germany and came into force on July 1st. In addition to the blocked accounts created in several of the countries which had ceased to transfer debt service but continued payments in domestic currencies, the foreign exchange controls of many other countries had resulted in foreigners' balances being blocked. Altogether, there were such blocked accounts, or accounts virtually blocked, in twenty-two countries — in Austria, Bulgaria, Germany, Hungary, Greece, Roumania, Yugoslavia, Angola, Argentine, Brazil, Chile, Costa Rica, Colombia, Nicaragua, Turkey and also in Czechoslovakia, Denmark, Estonia, Iceland, Latvia, Persia and Venezuela.

The usage of these blocked accounts varies a good deal. [2] In most countries, they are available for internal payments, and can be drawn on for tourist and similar expenditures, sometimes freely, but in other cases only with the permission of the Central Bank. There has been a certain amount of funding of these balances either by the issue of long-dated Government scrip or long-dated bills or by the purchase of industrial securities. In June 1933, for example, an agreement was reached between the Bank of Brazil, the Brazilian Government and representatives of certain creditors by which the creditors delivered to the Bank their balances in Brazilian currency, the Bank converting them into dollars and delivering to the creditors seventy-two equal bills of exchange payable monthly. In Colombia, Government

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[1] London *Times*, June 17th, 1933.

[2] Cf. Royal Institute of International Affairs, "Monetary Policy and the Depression", London, Oxford University Press, 1933, pages 93-118.

scrip with a ten-year currency was offered in payment of debt service after December 1931. In European debtor countries, such funding as has been effected has been by private arrangement between debtors and creditors. The Yugoslav Government, however, has concluded a funding arrangement.

The position of the debtor countries may be summed up, therefore, by pointing out that circumstances have forced some adjustments of their burdens, but that the major problems as yet remain unsolved. There have been substantial reductions of short-term debt, and various moratoria and suspensions of transfer, with some default on longer-term obligations. In addition, it should be emphasised that the real burden of external indebtedness has been greatly relieved by the exchange depreciation of the sterling and dollar currencies in which so large a proportion of the world's foreign debt is reckoned. A depreciation of 25 to 30 per cent in these currencies has been equivalent to a similar reduction of the nominal cost of debt service where the national currencies of debtor States have not further depreciated. Certain countries of the gold *bloc*, however — France, Belgium and the Netherlands — have paid debts falling due in gold dollars, ignoring the abrogation of the gold clause by the United States. The United Kingdom in July paid a dollar debt in paper dollars, but at the same time offered a conversion arrangement which, in effect, gave a premium to the creditors more than the current value of the dollar but less than gold parity.

Moreover, the tendency since March 1933 for the general level of wholesale prices to rise is a definite gain, though the extent of that gain is limited by the extent to which the exports of debtor countries remain subject to unusual import restrictions. A rising price level, accompanied by freer trade, would go far to solve the major problems of indebtedness.

There remain, however, very difficult cases of individual countries and of individual loan transactions in those countries which are not likely to be met by any measure of currency devaluation, freer trade, or rising prices that seem to be in prospect. For cases of over-indebtedness or unwise borrowing, more radical solutions will no doubt eventually be found. Discussion of this problem has been somewhat confused by the natural concentration of debtors upon their present situation, against which must be set an equally natural reluctance of their creditors to conclude permanent arrangements at the depth of the depression. The Stresa Conference in September 1932,[1] the meetings

[1] League of Nations, Commission of Enquiry for European Union, " Report by the Stresa Conference for the Economic Restoration of Central and Eastern Europe " (document C.666.M.321.1932.VII).

of the Preparatory Commission of Experts who drew up the draft annotated agenda of the Monetary and Economic Conference in January 1933,[1] and the Conference itself in June and July 1933, devoted a good deal of consideration to this general problem. The resolution finally passed by the Monetary and Economic Conference at its plenary session on July 27th laid down a series of general principles — the necessity of freeing trade, the sanctity of contracts, and the desirability of creating organisations of creditors with which debtors might negotiate.[2]

The last principle has, in fact, emerged from the difficulties of recent years. The British Council of Foreign Bondholders — the prototype of such organisations — as founded in 1868, licensed by the Board of Trade in 1873 and reconstituted in 1898 by special Act of Parliament. Its principal object is " the protection of the interests of the holders of foreign securities " ; but, in pursuit of that interest, it acquires a great deal of valuable financial information and serves not only as an instrument of negotiation with debtors, but also as a source of information regarding the possibilities of future investment. A similar organisation exists in France, and another has recently been created in the United States. *Ad hoc* committees of creditors have been formed in other countries in recent years including the League Loans Committee formed to protect the interests of bondholders whose loans were guaranteed by the League of Nations ; but, in endeavouring to negotiate standstill and other agreements, debtor Governments have been handicapped by the incomplete organisation of creditor interests as a whole. It is to remedy this difficulty that the Conference resolution on indebtedness included the suggestion that such organisation should be improved, and that co-operation should be fostered between the various national bodies representing creditor interests. Cautious steps in this direction are obviously of great importance in view of the large rôle played by international lending in the economic life of the modern world.

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[1] League of Nations, Monetary and Economic Conference, " Draft Annotated Agenda submitted by the Preparatory Commission of Experts " (document C.48. M.18.1933.II).

[2] League of Nations: *Journal of the Monetary and Economic Conference*, London, 1933.

Chapter X.

THE BALANCING OF INTERNATIONAL ACCOUNTS.

THE PROBLEM OF INTERNATIONAL EQUILIBRIUM.

The subjects treated in the preceding chapters of this *Survey*, and particularly in those devoted to international trade, monetary and banking policy, and international indebtedness, may all be regarded as different aspects of one great problem — that of restoring balanced equilibrium in the economic system. The conception of equilibrium, it is true, presents considerable difficulties in economic discussion, mainly because such equilibrium as exists in practice is the unstable, shifting result of an almost infinite series of temporary and incessantly changing minor equilibria. Much of the interest and value of economic analysis lies, not only in the study of theoretically stable positions of equilibrium, but also in that of the departures from equilibrium which are the occasions of economic change and development. Thus the study of international trade and of the forces which tend to regularise and balance imports and exports leads naturally to analysis of the processes by which population and capital resources have been transferred from more to less developed regions and have thus greatly facilitated the building up of important new units of economic organisation. The international commerce which developed so rapidly in the nineteenth and twentieth centuries is remarkable, not only because of the regularity and efficiency with which adjustments were made and new equilibria achieved in the national economic organisations of the countries which participated in that commerce, but also because it was the vehicle by which a " new world was called into existence to redress the balance of the old ".

In the *Survey* for 1931-32 an attempt was made to explain the dynamic nature of the processes by which international accounts are balanced, not as the result of a calculation at stated periods, but continuously by the interaction of a whole series of

economic and financial forces — rates of interest and levels of prices as well as amounts of credit and quantities of goods and services interchanged. [1] Stress was there laid upon the inherent tendency of these forces to restore equilibrium between the national economic systems. But the same conception may also be used as a starting-point from which to analyse the phenomena of development as distinct from those of equilibrium. It is, in fact, not a static position of equilibrium which is achieved through the interaction of these international financial and economic relationships, but a continuous series of adjustments to a shifting equilibrium. As much importance attaches to the shifting trend as to the adjustments which keep a balance between the national economic systems as the trend develops.

It is necessary, if this dynamic conception is to be fruitfully used, to recognise clearly that current economic analysis and popular discussion which begin by assuming closed national economies, even if at a later stage some modifying " international " factors are introduced, run the risk of disregarding important elements of the problem. There is, at the present time, little risk of the contrary assumption of a world economic unit being made. Most economic discussion is concentrated upon the effects of different phenomena upon the national dividend, and tends to minimise, or even ignore, the importance of parallel developments in respect of the national dividend of other countries.

It is essential, however, to realise that the real form which modern economic organisation has taken is neither that of a series of isolated national units nor that of a single economic world unit, but that of a series of partly closed, partly interdependent national economies linked in a shifting equilibrium, the changes in which are expressed by alterations in the rates at which the respective national currencies are exchanged. As was pointed out in the preceding *Survey*, [2] it was the strain which developed when the factors of interdependence (mainly financial) between national economies moved in such a way as to demand excessive adjustments of important domestic factors that threw the economic organisation of the whole world into confused disequilibrium.

The realistic consideration of economic problems is possible, therefore, only in this setting of international interdependence, as distinct from either national economic independence or cosmopolitan dreams of world unity. Nor is it possible to separate national from international equilibrium. There can be no stability of national economic organisation which does not presuppose either

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[1] *World Economic Survey*, 1931-32, pages 167-171.
[2] Pages 43-46.

complete isolation or else a relatively stable equilibrium with other national units—and isolation is, in fact, impossible in the modern world. The various factors that enter into national economic organisation exert their influence through the prices of commodities and services of all kinds ; but each national price system is influenced by every other, if only because international competition constantly tends to render equal the local prices of important basic commodities.

These considerations derive added importance at the present time from the fact that the mechanism of the foreign exchanges by which normally the national price systems are connected has been impaired over a wide area. As long as it was possible to maintain the international gold standard, adjustments were automatic. When, for any reason, prices in one country got unduly out of relation with those in other countries, movements in the exchanges set up corrective forces which might be termed gyroscopic in character. If the price-levels were too high, goods flowed in and, if necessary, gold flowed out, till the levels had been brought back again to stable relationship with those of other countries. The extraordinary smoothness and efficiency with which these automatic adjustments were effected disguised the complexity of the processes involved. When exchange rates moved against a country in such a way as to render necessary a restriction of credit in order to safeguard the stability of the currency—in other words, to ensure a maintenance of international economic equilibrium — that restriction led to very intricate and complicated consequences. Not only was the average level of prices depressed, with all the consequences of disturbed equilibria between production and purchasing power, wages and costs of living, wholesale and retail prices, interest rates and other costs of production, but the prices of individual commodities and services and the conditions of their production and distribution were altered also. It is true that the range of alteration necessary was not, as a rule, great. It was only when there existed a fundamental cause of disequilibrium, such as the growing inflexibility of certain prices, that the cumulative effect over a long period of day-to-day adjustments in one direction caused serious difficulties in maintaining international equilibrium.

Since the breakdown of the gold standard, the multiplicity of the factors at work has not only become more obvious, but the disequilibria to be corrected are greater and the flexibility of prices which alone makes continuous adjustment possible has given way to more violent fluctuations of certain prices accompanied by more rigid flexibility in other parts of the price structure. The attempts which must inevitably be made to achieve international equili-

brium between the national economic systems are rendered vastly more difficult. Instead of the factors which must be adjusted being gathered up smoothly and automatically by the working of the gold standard, they must be considered separately. Moreover, the normal controls which keep them together having been broken, they have tended to fly apart and to fluctuate independently and more widely.

Perhaps the best illustration of this problem is to be found in the difficulty which surrounds discussion of the exchange rates which are actually in operation, of their relation to what might be a true equilibrium rate, and of the most suitable rates that might in the future be adopted as the basis of a new and lasting equilibrium between the national price systems. If answers are desired to the questions whether, at a particular rate, a currency is under- or over-valued, or whether permanent stabilisation might be possible at certain rates, very complex considerations must be taken into account. The diversity of opinion entertained in regard to these questions is a natural reflection, not only of the legitimate differences of opinion that may be held, and of the relative weight to be attached to various factors in the equation, but also of the virtual impossibility of measuring, and still less of forecasting, the development of many of the more important of them.

Thus, it is not sufficient merely to consider the relative levels of wholesale prices in the countries concerned. Setting aside for the moment the very important movements of short-term credit that are induced at short notice either by speculative possibilities or by flights from currency instability, there are very complex difficulties created by the divergent movements and variant flexibility of different sorts of prices within each country. Moreover, monetary policies pursued in the present circumstances of managed currencies are an extremely important element in the problem. At any moment it is difficult to find ratios — which must necessarily be multilateral — that exactly fit the needs of not only wholesale but retail price-levels, the cost of living, wages, export and import prices, the balance of trade, etc., in all the countries concerned. That difficulty is all the greater because the factors change incessantly from day to day, especially when the monetary policies of important countries are still in process of development.

No doubt, as monetary policies become more defined, and their results become more evident, the range of exchange fluctuations will gradually narrow and experimental *de facto* stabilisation within fairly wide limits be effective. The possibilities of holding fluctuations within such limits depend, obviously enough, not only upon freedom from new and violent disturbances, but also

upon the achievement of sufficient flexibility within national price systems to bring into line such domestic factors as are out of harmony with the equilibrium gradually developed.

THE BALANCE OF COMMODITY TRADE.

Detailed statistics of foreign trade in 1932 are not yet available for all countries, but an enquiry into the geographical distribution of the trade of fifteen important countries, the aggregate trade of which represents about 60 per cent of world trade,[1] reveals the fact that bilateral trade (the value of imports offset by exports to the same country) fell, in 1932, to 37 per cent of its value in 1929. Triangular trade (the value of imports offset by exports to other countries than that from which the imports are derived) fell to 30 per cent of its 1929 value. The aggregate net balances of commodity trade (imports or exports not offset but paid for by invisible items of export or import) fell only to 61.4 per cent of the 1929 figures.

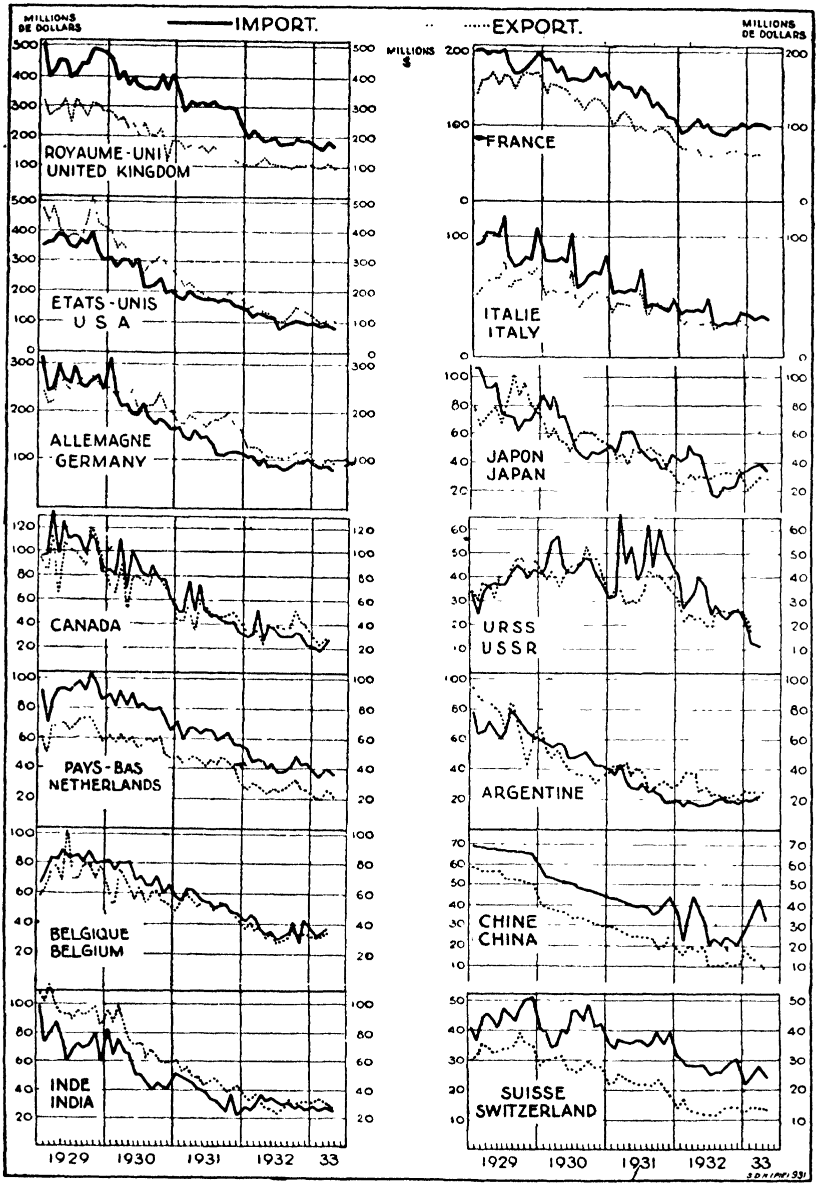
The following table shows the value, movement and distribution of the three groups :

	Gold $ (000,000's)			Percentage movement			Percentage distribution		
	1929	1931	1932	1929	1931	1932	1929	1931	1932
Bilateral trade .	26,999	15,269	10,011	100	56.5	37.1	72.0	66.9	69.3
Triangular trade.	6,423	3,313	1,926	100	51.6	30.0	17.1	14.5	13.3
Aggregate net commodity balances	4,106	4,238	2,520	100	103.2	61.4	10.9	18.6	17.4
Total	37,528	22,820	14,457	100	60.8	38.5	100	100	100

The aggregate net commodity balances, which represent mainly the net outward or inward payments on account of fixed debt charges and of services, reveal significant movements in these years. In the period from 1929 to 1931, these balances increased, in spite of the great decline in trade, but from 1931 to 1932 they fell more than any of the other groups. This appears to indicate that, in 1932, the full payment of debt service proved impossible in face of the decline of world trade. The tendency in 1932 for the difference between import and export values to diminish is demonstrated by the diagram given below.

[1] League of Nations *Review of World Trade, 1932*, Geneva, 1933, page 62.

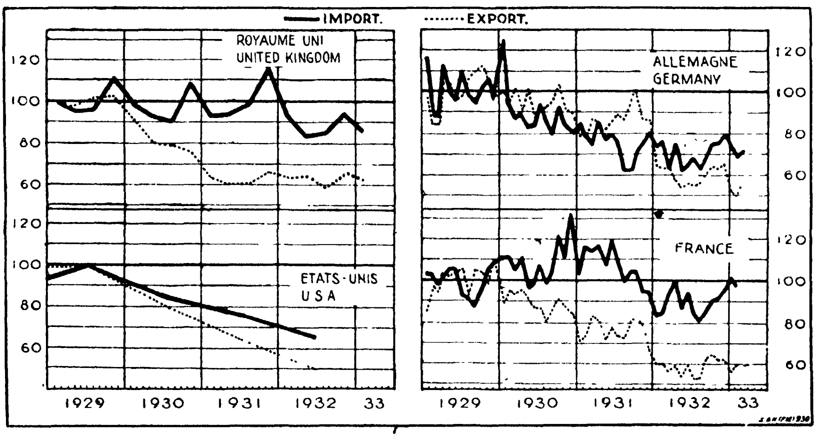
Imports and Exports of Certain Countries.
Values in gold $ (000,000's).



Inspection of the commodity imports and exports for a number of countries during the four years 1929-1932 below reveals a number of forces at work. Up till the end of 1931, the tendency was for creditor countries to find their passive balances increasing and for debtor countries to increase their active balance. Thus the passive balance (in million dollars gold) in France rose from 333 in 1929 to 464 in 1931, declining to 398 in 1932. Among debtors, Germany converted a passive balance of 173 in 1929 to an active balance of 384 in 1931, but was unable to maintain this figure, the active balance in 1932 shrinking to 242. There were many cases, however, where it was impossible for the debtor countries to make headway against the fall in prices. China, Spain, Hungary, the Irish Free State, British Malaya, and the U.S.S.R. are cases where, after an initial improvement, the balance of trade became more adverse. The statistics of India need special explanation, the smaller active balance of commodity trade being the counterpart of large exports of gold released from hoarding.

The trade values recorded are the result of two factors — the quantum of trade and relative prices. It will be obvious from the diagram below that the great manufacturing countries have maintained the quantities of their imports better than those of their exports.

Imports and Exports of Certain Countries.
Quantum (Base : 1929 = 100).



This fact is, of course, the corollary of movements in the terms of trade by which, at least till the middle of 1932, the prices of raw materials and foodstuffs fell relatively faster than those of manufactured goods, so that, in the agricultural countries,

export prices fell relatively to import prices, and, in the manufacturing countries, import prices fell relatively to export prices. In other words, the manufacturing countries sold less but at relatively favourable prices, while the agricultural countries sold more but at very low prices. The movements of the terms of trade adversely to the agricultural countries until the middle of 1932 is clearly shown in the diagram and table in Chapter II.

Net Balance of Commodity Trade.
(+ : Excess of exports over imports ;
— : excess of imports over exports.)
Gold $ (000,000's).

	1929		1930		1931		1932		1933
	I-VI	VII-XII	I-VI	VII-XII	I-VI	VII-XII	I-VI	VII-XII	I-VI
Debtors :									
Argentine .	+113	— 26	— 32	— 72	+ 30	+ 49	+ 90	+ 25	+ 23[1]
Australia. .	+ 15	—129	— 54	+ 12	+ 68	+ 50	+ 61	+ 20	+ 50
Austria . .	— 72	— 79	— 64	— 56	— 62	— 60	— 52	— 36	— 29
Germany[2] .	—154	— 16	+ 32	+191	+170	+414	+128	+114	+ 68
India . . .	+131	+131	+128	+105	+ 30	+ 61	+ 1	+ 3	+ 28
New Zealand	+ 71	— 45	+ 30	— 30	+ 34	— 3	+ 27	+ 4	+ 34
Creditors :									
Belgium . .	— 40	— 64	— 90	— 46	— 16	— 1	— 16	— 25	— 13
France. . .	—225	— 92	—166	—213	—271	—190	—205	—193	—240
Netherlands.	—143	—163	—158	—123	—125	—109	—105	— 78	— 84
Switzerland[3]	— 56	— 73	— 73	—103	— 76	— 78	— 95	— 91	— 73
United Kingdom.	—903	—955	—906	—974	—885	—928	—515	—486	—411
United States . .	+347	+471	+224	+443	+196	+ 94	+ 78	+169	+ 71

The cumulative effects of the depression and of the trade restrictions which it engendered are clearly revealed both in the decreased passive balances of the creditor countries in 1932 and in the decreased active balances of those debtor countries most affected by the trade restrictions. The moral is pointed by the contrast afforded by those debtor agricultural countries which supplied markets, such as the United Kingdom and the United States, where quantitative import restrictions are not greatly developed. In such countries as Australia, New Zealand and the Argentine, the balances of commodity trade went far to right themselves by the end of 1932, and the early months of 1933 saw a considerable revival of imports into those countries. The recovery of purchasing power in these countries where the depression began so early is a good omen.

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[1] January to April only. The figure for the same period in 1932 was + 68.
[2] Excluding reparations in kind.
[3] Including bullion.

Imports and Exports of Certain Agricultural Countries.
Gold $ (000'000's).

Country		1929	1930	1931	1932	First six months 1932	First six months 1933
Argentine :	Imports .	820	617	349	215	72 [1]	75 [1]
	Exports .	907	513	428	330	140 [1]	98 [1]
	Balance .	+ 87	— 104	+ 79	+ 115	+ 68	+ 23
Australia :	Imports .	706	460	197	187	79	85
	Exports .	592	418	315	268	140	135
	Balance .	— 114	— 42	+ 118	+ 81	+ 61	+ 50
Brazil :	Imports .	422	261	140	106	44 [2]	61 [2]
	Exports .	461	318	241	179	83 [2]	82 [2]
	Balance .	+ 39	+ 57	+ 101	+ 73	+ 39	+ 21
New Zealand :	Imports .	233	204	110	78	36	33
	Exports .	259	204	141	109	68	67
	Balance .	+ 26	± 0	+ 31	+ 31	+ 32	+ 34
Palestine :	Imports .	35	34	27	27	5 [3]	8 [3]
	Exports .	8	9	7	8	5 [3]	6 [3]
	Balance .	— 27	— 25	— 20	— 19	± 0	- 2
Siam :	Imports .	86	65	40	29	14 [2]	9 [2]
	Exports .	94	69	49	45	20 [2]	12 [2]
	Balance .	+ 8	+ 4	+ 9	+ 16	+ 6	+ 3
South Africa :	Imports .	417	324	263	168	74	71
	Exports .	454	389	333	322	159	155
	Balance .	+ 37	+ 65	+ 70	+ 154	+ 85	+ 84

The Circulation of Capital.

During the course of the depression, great changes have taken place in the invisible imports and exports which must be included in any complete statement of the balances of international payments.[4] Generally speaking, these invisible items have shrunk very considerably in 1932. Thus, the external balances of the United Kingdom in respect of shipping income, income from overseas investments and net receipts from short interest and commissions have all fallen heavily.

[1] First four months.
[2] First five months.
[3] First three months.
[4] Cf. the forthcoming volume *Balances of Payments, 1932*, to be published at the end of 1933.

Balances of Income and Expenditure in the Transactions (other than Lending and Repayment of Capital) between the United Kingdom and all Other Countries.

£ sterling (000'000's).

	1929	1930	1931	1932
Excess of merchandise imports (including silver coin and bullion)	381	386	408	289
Estimated excess of Government receipts from overseas [1]	24	19	14	— 25 [2]
Estimated net national shipping income	130	105	80	70
Estimated net income from overseas investments	250	220	170	140
Estimated net receipts from short interest and commissions . . .	65	55	30	30
Estimated net receipts from other sources	15	15	10	15

Examples might be drawn from other countries. Thus, the tourist expenditure abroad by citizens of the United States fell from $868 million in 1929 to $446 million in 1932. Emigrants' remittances in the same period fell from $240 million to $138 million, and missionary and charitable contributions from $49 million to $31 million. The earnings of Canadians employed in the United States fell from $13.7 million in 1929 to $0.8 million in 1932. Dividends and trade profits remitted from the Dutch East Indies amounted, in 1929, to $100 million, but, in 1932, had fallen to $12.5 million. The expenses of Norwegian whaling companies abroad fell from $5.3 million in 1929 and $8.6 million in 1930 to $1.4 million in 1932. While this is the general rule, there are many contrary cases where the dislocation of equilibrium between national price-levels has caused considerable shifts and, in many countries, increases in international services. Thus, tourist traffic in the gold-standard countries has fallen off ; but, in the countries with depreciated countries or with blocked accounts that can be drawn upon at favourable rates, tourist traffic has increased.

[1] Including some items on loan account.
[2] Estimated excess of Government payments made overseas.

International Capital Movements. [1]
Net Inward (+) or Outward (—) Capital Balances in Gold $ (000,000's).

Country	Nature of estimate	1928	1929	1930	1931	1932
Creditor countries :						
France [2]	Indirect	— 237	+ 20	+ 252	+ 788	...
Sweden	Indirect	— 19	— 71	— 26	+ 23	...
	Direct .	— 39	— 26	— 84	+ 13	...
United Kingdom [3]	Indirect	— 569	— 574	— 112	+ 313	+260
United States . .	Indirect	—1,126	— 225	— 295	± 0	—547
	Direct .	—1,032	— 134	— 687	— 165	—661 [4]
Debtor countries :						
Argentine [5] . . .	Indirect	+ 181	+ 4	+ 243	— 27	...
	Direct .	+ 131	+ 38	+ 167	+ 1	...
Australia [6]. . . .	Indirect	...	+ 188	+ 214	+ 15	— 56
	Direct .	...	+ 99	+ 189	+ 22	—101
Canada	Indirect	— 201	+ 65	+ 159	— 27	— 64
Denmark	Indirect	— 1	— 9	+ 5	+ 12	— 16
	Direct .	± 0	— 9	+ 2	+ 29	— 18
Dutch East Indies [7]	Indirect	± 0	+ 66	+ 60	+ 28	— 4
	Direct .	— 8	+ 32	+ 32	+ 32	+ 47
Finland	Indirect	+ 40	+ 12	— 5	— 24	...
Germany [8]	Indirect	+ 961	+ 506	+ 110	— 510	—101
Hungary	Indirect	+ 91	+ 38	+ 24	+ 39	...
	Direct .	+ 88	+ 36	+ 37	+ 50	...
India	Indirect	+ 67	+ 37	+ 92	— 86	— 25
New Zealand [9] . .	Indirect	— 5	+ 53	+ 49	+ 4	...
Norway	Indirect	+ 33	+ 10	+ 29	+ 27	— 5
	Direct .	+ 33	+ 14	+ 37	+ 25	— 12
Poland	Indirect	+ 124	+ 67	+ 9	+ 1	...
Turkey	Indirect	+ 11	+ 50	— 6	+ 3	...

[1] The figures are based on official or private statements concerning the balance of payments of the countries in question. Full details of the statements for the years 1927-1930 are given in *Balances of Payments*, 1930 (Series of Publications 1931.II.A.28.ii).

All the figures are estimates, subject to some margin of error. Whenever possible, two figures for the capital balance are given — namely :

(1) The balance as calculated *indirectly* from the balance of non-capital items (trade in goods, gold movements, net receipts or payments on account of interest, dividends, freights, emigrants, remittances, tourists and miscellaneous services) ;

(2) The balance as calculated *directly* from the known movement of capital in the form of the new loans raised, amortisation payments, purchases and sales of outstanding securities, changes in floating debts or assets, etc.

If the statements could be made exact and complete, the two estimates would agree exactly in each year.

When not otherwise indicated in the footnotes, payments for the amortisation of war debts, but not reparation payments, have been counted as capital items. Changes in the amount of gold under earmark held for foreign account in the country, or for national account abroad, have been counted as capital items.

[*Footnotes* [2] *to* [9] *on following page.*

Such scattered illustrations as those given above serve to show in what varied directions the depression has reduced earnings and commissions. It should be noted, however, both in respect of these figures and of those quoted elsewhere in discussions of the balances of payments, that their reduction, for convenience, to gold dollar values tends to exaggerate the extent to which the shrinkage of the balances implies difficulty in meeting international financial obligations. As was previously noted in the chapter on indebtedness, the depreciation of both sterling and the dollar from their gold parities has greatly relieved the external burden upon those countries whose debts are expressed in terms of the depreciated currencies.

The striking extent to which normal capital movements have been reversed in recent years may be illustrated by the preceding table and the diagram which follows. It will be seen that there is a clear tendency for the great creditor countries to receive net imports instead of sending out net exports on capital account, while the debtor countries have a net export balance on capital account.

The reversal of capital movements in recent years is obviously due to the fact that debtor countries have continued to pay interest and amortisation, except where there has been a flight of capital or where excessive strain on their external balances has caused them either to default or to seek temporary accommodation from their creditors, while new capital issues on foreign account in the great financial centres have shrunk very greatly indeed. Defaults and suspensions of transfer have been responsible for some of the shrinkage of invisible imports and exports previously referred to. Thus, it is estimated that the net income received in the United Kingdom from overseas investment suffered the following changes in 1931 : defaults on overseas Government loans amounted to £1,000,000, while the interest receipts from other loan capital fell by about 10 per cent and receipts from variable interest securities (including preference shares) fell by 40 per cent. In 1932, defaults on Government loans amounted to £5,000,000; but interest receipts on other loan capital kept up fairly well, the defaults which occurred being largely offset by the

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[2] Excluding amortisation of inter-allied debts.

[3] Excluding Government capital transactions (*e.g.*, receipts and payments on account of war debts).

[4] (1932) Of which net release of gold from earmark — 457.

[5] Year ending September 30th. Excluding amortisation of public debt and certain mortgage bonds.

[6] Year ending June 30th.

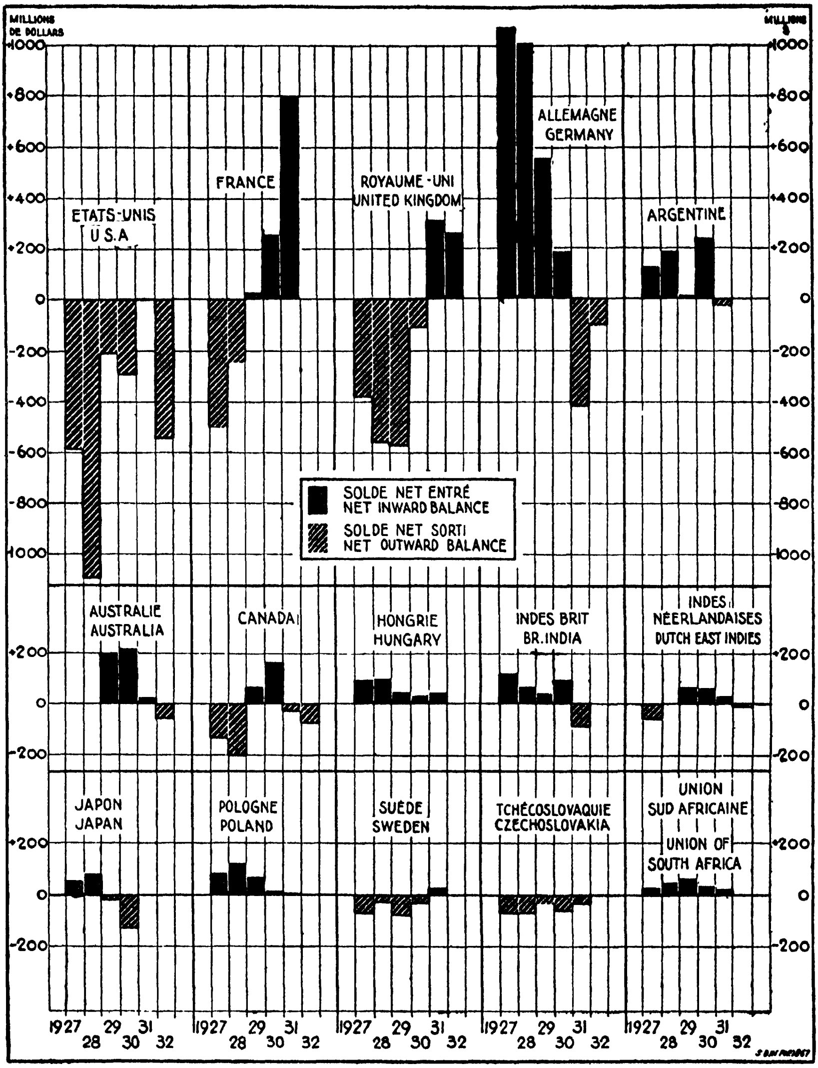
[7] Excluding re-investment in the country of interest and dividends earned by foreign capital.

[8] Excluding amortisation of the Dawes Loan (about $6 million annually).

[9] Year ending March 31st of following year.

International Capital Movements. [1]

Net Inward (+) or Outward (—) Balances in Terms of Gold $ (000,000's).



[1] Cf. League of Nations *Monthly Bulletin of Statistics*, No. 5, May 1933.

gold premiums on some payments. The returns on variable interest securities, however, fell off one-third from the 1931 total.

The extent to which international lending has shrunk is disclosed in the following table :

Issues for Foreign Account. [1]
$ (000,000's).

In		Europe	Asia and Oceania	Africa	Canada and Newfoundland	Latin America	Issues not specified	Total
United States of America	1928	598	137	—	185	331	—	1,251
	1929	142	58	—	295	176	—	671
	1930	233	62	—	281	199	130	905
	1931	78	25	—	125	1	—	229
	1932	—	—	—	29	—	—	29
United Kingdom	1928	164	232	80	98	96	28	698
	1929	105	139	51	74	78	12	459
	1930	53	195	129	17	101	34	529
	1931	14	125	36	6	26	2	209
	1932	—	40	46	9	—	7	102

It is quite clear also that, together with this great shrinkage of foreign lending, the tendency noted in the *Survey* for 1931-32, for such lending to be confined mainly to Government loans in countries connected closely with the lending centre, has been strongly accentuated. For example, the total issues on foreign account in the London Money Market amounted, in 1929, to £94,300,000 and, in 1932, to £29,200,000. Government loans declined from £30,400,000 to £24,600,000 ; municipal issues from £4,300,000 to £1,000,000 ; railway loans from £12,300,000 to £1,300,000; and loans for industrial undertakings from £47,300,000 to £2,300,000. It is particularly significant that, whereas loans to India and Ceylon declined in these years from £10,100,000 to £6,400,000, and those to other British countries from £44,300,000 to £22,500,000, loans to foreign countries, mainly because of the embargo imposed during the conversion period, ceased almost completely, falling from £39,900,000 to £300,000.

The liquidation of short-term balances during the latter half of 1932, already referred to in Chapter VIII, was not as great

[1] League of Nations *Balances of Payments*, 1931-32. The figures for the United States refer to nominal value, and those for the United Kingdom to price of issue.

as that which took place in the twelve months after the financial panic set in during the spring of 1931 ; but, as in 1931, this movement reinforced the drain of capital upon many debtor countries. The net results may be roughly summarised in the following table :

International Short-Term Capital Movements. [1]

Inward (+) or Outward (—) Capital Balance in Millions of Dollars, based on Direct Estimate of Changes in Floating Debts or Assets.

	1927	1928	1929	1930	1931	1932
Creditor countries :						
Sweden [2]	— 54	+ 10	— 18	+ 8	+ 48	...
United States	+ 1,005	— 348	— 40	— 463	— 398	— 908
Debtor countries :						
Argentine	— 8	+ 24	— 11	— 8	+ 7	...
Czechoslovakia	— 13	— 12	+ 4	— 28	+ 35	...
Denmark	— 28	— 42	— 3	+ 5	+ 35	— 11
Germany (incomplete data)	+ 634	+ 536	+ 349	— 156	— 553	— 56
Hungary [3]	+ 35	+ 33	— 2	+ 2	+ 47	...
Norway	— 14	— 13	+ 18	+ 41	+ 19	— 13

Such a stoppage, and in many cases reversal, of capital movements gravely affected the terms of trade in the debtor countries ; but, as was previously indicated, the more favourable price movements in the latter part of 1932, combined with considerable measures of internal adjustment in the debtor countries, placed many of them in a somewhat more favourable position at the end of the year. The violence of the price movements and of exchange rates in 1931 and the early part of 1932, together with the restrictions on trade and foreign exchange controls, distorted the normal relationships to a degree that can be described only as a destruction of international economic equilibrium. The connection between capital exports, gold movements, the relative prices of raw materials and finished products, and industrial activity demonstrated in the preceding *Survey* [4] was temporarily obscured by the violence of price movements and the collapse of economic activity in the financial panic.

[1] League of Nations *Monthly Bulletin*, No. 5, 1933. The footnotes to the table on international capital movements apply also to this table.
[2] Operations by banks only.
[3] In the years 1930 and 1931, medium-term capital transactions are included.
[4] Page 184.

Brief reference should be made, in conclusion, to the far-reaching effects of the decisions recently taken in the United States and the United Kingdom concerning the legal validity of the " gold clause " in debt contracts. Such clauses, stipulating in various formulæ the payment of interest and amortisation in gold currency of a specific standard weight and fineness or in gold currency of the standard in force at a particular date, were commonly incorporated in loan contracts mainly as a guarantee to the lender against losses entailed by currency depreciation. Apart, however, from depreciation, price movements entailed some element of uncertainty in the commodity value of payments spread over a long term of years. Rising prices entailed some loss to creditors ; falling prices some gain. In recent years, the fall in prices has been so severe that a considerable extra strain was placed upon the debtors required to pay in currencies which had appreciated violently.

As one result of the measures taken to deal with the banking panic, and of the depreciation of the dollar, legislation abrogating the gold clause was passed in the United States. The law of March 14th, 1900, defining the dollar of 25.8 grains of gold, nine-tenths fine, as the standard currency of the United States, was repealed, and the gold clauses in existing contracts were declared invalid as " against public policy ". This legislation applies to all contracts, domestic or foreign.

A decision of the British Court of Appeal in a case brought by a bondholder to secure enforcement of the gold clause in a loan contract upheld the decision of the Court of Chancery that payment in legal tender satisfied the debt. It was held invalid for the contracting parties to assess consideration to be paid in terms of a currency not recognised by the State as legal tender. [1]

In the same sense, the action of the British Treasury in paying the obligations due under a 5½ per cent dollar loan in paper dollars, though partly compensated by a conversion offer which gave favourable terms to the holders of the loan, was a *de facto* recognition of the validity of the United States action in abrogating the gold clause in existing contracts. [2]

The highest courts — the Supreme Court of the United States and the House of Lords — have not yet pronounced on this issue, so that the legal position remains somewhat in doubt. If the decisions are upheld, they clearly affect very considerably the prospects of a resumption of international capital movements in the future, and may cause important changes in the form which any such capital movements take.

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[1] Cf. *Economist*, March 25th, 1933, page 647.
[2] *Ibid.* July 22nd, 1933, page 175.

Gold Movements during 1932.

The main interest attaching to gold movements since the financial panic which began in the spring of 1931 has lain in their bearing upon the distribution of gold reserves in the world, and not in their bearing upon the balancing of payments. The breakdown of the gold standard has dissociated gold shipments from current requirements on trading account. Such international economic equilibrium as exists has been secured by changing price-levels and fluctuating exchange rates with which the gold movements have had little connection.

The fact that in 1932 " gold movements reached proportions never before experienced " is, however, sufficient evidence of the great importance still attached almost universally to the possession of gold. By a gradual process of evolution extending over many centuries, it has become recognised as a standard of value, and it is clear that the value of gold in terms of commodities is largely derived from the monetary demand, which is much greater than the demand for its use in the arts or for ornament. There is quite obviously a widespread expectation that gold will continue to be used for monetary purposes, and possibly at higher commodity values resulting from currency devaluation in many countries. The competition for gold has been greater and the price paid for it has been higher since its use as a standard of value was suspended in so many countries, and this can only be in anticipation of the resumption of the gold standard at a future date.

During 1932, the production of new gold from the mines reached record figures, the increase being widespread, but greatest in South Africa, Canada and the United States.[1] The search for gold, especially in the countries which, by departing from the gold standard, have raised the price of gold in legal tender, has been one of the picturesque results of the depression. The greatest practical effect has been the increase of the ore mined by large-scale capitalist methods. Low-grade and deep ores, which were not profitable at the price ruling before the abandonment of the gold standard, became profitable when the standard was abandoned. Prospecting for new goldfields was also pushed energetically in widely separated countries — in Siberia and the Soviet Union, Australia and New Zealand, Japan, Canada and Kenya — and old fields were worked over once more by new methods.

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[1] In 1933, however, as the export of gold is prohibited and there is no free gold market, production in the United States has fallen substantially. The domestic output of gold fell from 252,000 fine ounces in March to 189,000 in April, 185,000 in May and 142,000 in June. *Annalist*, August 4th, 1933.

'The result of all this activity is summarised statistically in the following table :

The Production of Gold.[1]
(Kilogrammes.)

	1929	1930	1931	1932
South Africa	323,860	333,316	338,337	359,504
Canada	59,977	65,382	83,789	94,884
United States [2]	64,042	66,521	68,854*	70,894*
Australia.	13,286	14,513	18,745	22,000*
Mexico	20,276	20,808	19,378	18,164
Southern Rhodesia	17,443	17,033	16,551	17,858
Japan	10,422	12,068	13,372	13,200*
India	11,315	10,239	10,280	10,000
Belgian Congo[3]	5,375	6,093	7,425	8,547
Gold Coast	6,465	7,493	8,138	...
Colombia [4]	4,248	4,937	6,043	7,721
Philippines	4,996	5,574	5,400	7,100
New Zealand	3,500	4,015	4,045	6,200
Korea (Chosen).	5,553	6,186	9,031	6,000
Other countries (approx.) . .	28,000	28,500	30,000	32,000
Total	579,000*	603,000*	639,000*	683,000*

Another result of the gold premium in terms of depreciated currencies has been the release of unexpectedly large amounts of gold from hoards in Far-Eastern countries. The amount of gold thus made available from India alone is estimated by the Bank for International Settlements as amounting during 1932 to " more than 1,000 million Swiss francs, a sum not greatly inferior to the value of South-African production, which was 1,238 million Swiss francs ".[5]

The greater amounts of gold made available have been absorbed mainly in Central Bank monetary reserves. The demand for gold in the arts has fallen to very low levels, and, with the normal flow of gold to the Far East for hoarding reversed, much greater amounts were available for monetary purposes. Hoarding in certain European countries, and for a time in the

* Provisional.

[1] League of Nations *Statistical Year-Book, 1932-33*, page 130. The data represent, wherever possible, the fine-gold content of ore mined or exported. For a certain number of countries, however, the data represent smelter production. In several cases, the original data do not contain any reference to the nature of the statistics. The world totals are affected by the exclusion of China and the U.S.S.R. and by the uncertain character of the statistics of several South-American countries.

[2] Including Alaska.

[3] Industrial production.

[4] The data are uncertain and vary.

[5] " Third Annual Report ", cf. *cit.*, page 6.

United States, caused a drain upon these reserves ; but at the middle of 1932 they stood at higher levels than any previously recorded. The following table shows, however, that very great changes took place during the period 1931-1933 in the holdings of individual Central Banks. In the previous *Survey*, a diagram was presented showing the movement of gold reserves of Central Banks and Treasuries from 1925 to March 1931. The table and diagrams which follow supplement this diagram by showing quarterly movements since that date.

Central Monetary Gold Reserves of the World at End of Successive Quarters.
Gold $ (000,000's).

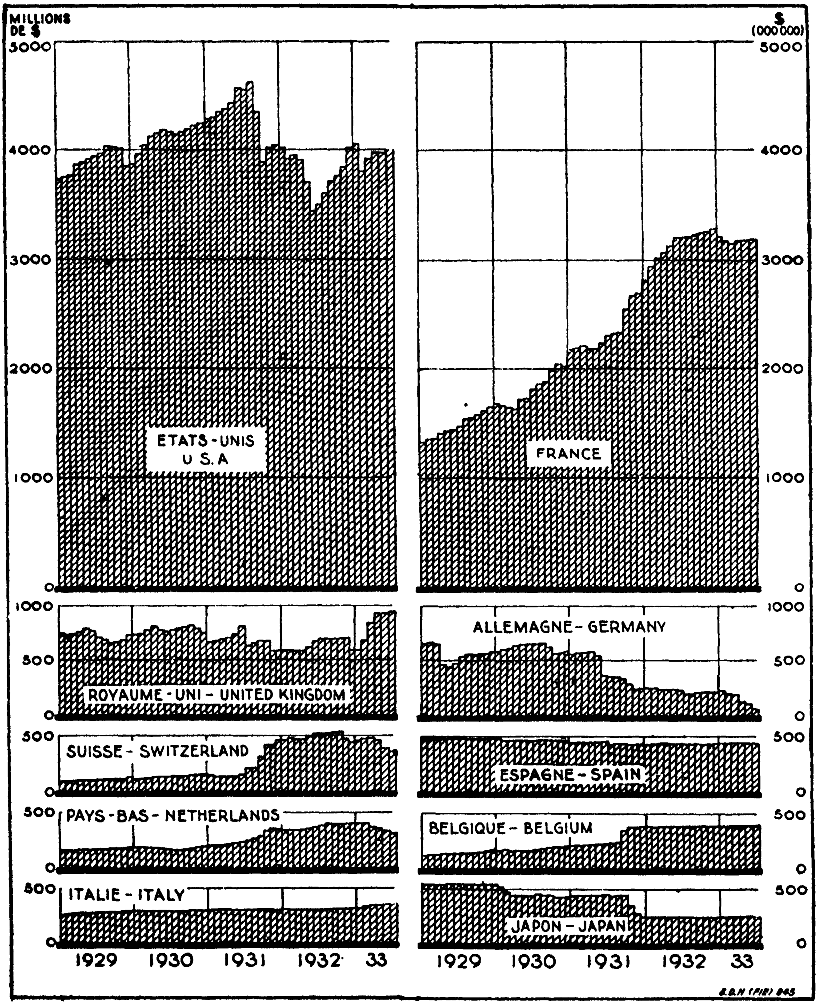
Country	1931			1932				1933	
	II	III	IV	I	II	III	IV	I	II
United States	4,593	4,365	4,051	3,986	3,466	3,748	4,045	3,916	3,996*
France	2,211	2,325	2,683	3,010	3,217	3,239	3,257	3,150	3,183
United Kingdom and Irish Free State	800	662	590	591	666	683	587	840	927
Spain	468	439	434	434	435	435	436	436	436
Belgium	200	347	354	350	357	359	361	371	372
Switzerland	162	328	453	471	503	509	477	489	361
Italy	283	287	296	296	298	305	307	331	356
Netherlands	200	282	357	353	394	416	415	381	309
Argentine	349	279	252	248	248	248	248	248	248
Japan	424	408	234	214	214	214	212	212	212
India	151	162	162	162	162	162	162	162	162
Sweden	64	53	55	55	55	55	55	62	71
Germany	354	326	251	226	215	207	209	193	62
Poland	64	64	67	64	54	55	56	55	53
South Africa	36	36	43	36	42	35	39	55	71
Czechoslovakia	46	45	49	49	49	49	51	51	51
Other countries									
World Total (excluding U.S.S.R.)	11,130	11,102	11,052	11,262	11,092	11,427	11,632	11,667	11,580*

The movements that have taken place are shown graphically in the following diagrams, which make clear the successive losses, alternating with partial regaining of reserves, in the United States; the stabilisation of French holdings after a rapid increase till the middle of 1932 ; the steady growth of the Italian reserves ; the strengthening of the British position in 1933 ; the weakening of those in Germany and Japan, and the substantial increases in Switzerland, Belgium and the Netherlands in 1931 and the early part of 1932.

It remains only to draw attention to the development on a great scale of gold hoarding in various Western countries, particularly in Western Europe and the United States of America. A gradual concentration of the gold stocks of the world into Central Bank reserves was taking place up till about the middle of 1931 ; but at that time fears of currency instability, dramatically

confirmed by the depreciation of sterling in September, led to hoarding on a large scale. In spite of a decline in the industrial consumption of new gold and a considerable increase in world gold production, and although very important amounts of gold from Indian hoards and other non-monetary sources became available for monetary use, total central gold reserves actually dropped between the end of June and the end of December 1931.

Central Monetary Gold Reserves of Certain Countries.
In Terms of Gold $ (000,000's).



Although total reserves again increased very considerably in the course of 1932, this increase fell appreciably short of the total of new gold and old non-monetary gold which in that year became available for monetary purposes. On the basis of such information — in part, rather approximate in character — as is available concerning gold production, consumption in the arts and releases from old non-monetary gold stocks, it may be indirectly estimated that the total " other monetary gold stocks ", which in June 1931 was about $700 million, had increased at the end of 1932 to roughly $1,250 to $1,300 million, mainly on account of private hoarding in Europe and North America.

In the first half of 1933, there was a further development of private hoarding in certain parts of the world. After the banking panic in the United States, legislative action was taken to compel a return of hoarded gold to bank reserves ; but hoarding in Europe continued, and is still in progress at the moment of writing.

Chapter XI.

THE ECONOMIC SITUATION IN JULY 1933.

The Monetary and Economic Conference.

The statistical evidence of rising prices, increased production and diminished unemployment presented in the succeeding sections of this chapter indicate that, in the second quarter of 1933, there was, at least temporarily, a definite upward turn in the business cycle. The fact that this improvement followed a similar period of revival in the third quarter of 1932, not all of which was lost in the winter recession, encouraged the belief that a measure of adjustment had taken place in a sufficiently large number of countries to warrant the hope that the period of deflation and deferred business activity was working itself out. Large problems remained to be solved, and some of them, notably the paralysis of international finance, exchange instability, and the widespread and drastic restrictions imposed on international trade, threatened to set fairly narrow limits, both in extent and in time, to the recovery which appeared to be under way. These obstacles lay almost entirely in the sphere of international action, and there was general agreement that steps towards their removal were essential if recovery was to be lasting and substantial.

It was to take the necessary measures in these fields that the Monetary and Economic Conference was decided upon at the Lausanne Conference in July 1932 ; but it was recognised that the timing of the Conference presented a delicate and difficult problem. The Preparatory Commission of Experts, which in January 1933 worked out the Draft Annotated Agenda for the Conference, represented the need for action as urgent ; but, before the Conference was convoked, the economic situation had greatly changed. The actual date for the opening was decided by the Organising Committee as a result of conversations held at Washington late in April between the President of the

United States and visiting statesmen, including the Prime Minister of the United Kingdom, who was President-elect of the Conference.

The date chosen was June 12th, 1933, and the Conference was duly opened at that time by His Majesty King George V. Sixty-four Governments sent delegations ; but the general debate with which the proceedings were opened was concluded within three days. During those days, negotiations on the war-debt payments were in progress outside the Conference. On June 15th, the United States accepted token payments from a number of countries, including the United Kingdom, payment was made in full by Finland, and no payments were made by the other debtors.

The Conference approached the detailed consideration of its problems by setting up plenary commissions to deal respectively with economic and with financial questions. The Economic Commission, after a general discussion of the subjects on its agenda, divided its work into four main groups, dealing respectively with Commercial Policy, Co-ordination of Production and Marketing, Indirect Protection and Public Works. Sub-committees were set up to deal with the first three of these groups, while the last was discussed briefly in the Commission itself.

The Conference had been preceded by a tariff truce initiated on the proposal of the United States Government at the meeting of the Organising Committee which definitely convoked the Conference for June 12th. The Governments represented on that Committee adhered to the proposal with some reservations in particular cases, including the right to use tariff policy as a defence against exchange dumping from countries with depreciated currencies. In the early stages of the Conference, further adhesions were secured from virtually all the countries represented. [1] The truce bound the contracting parties to refrain from new tariff initiatives for the duration of the Conference, or, if it lasted after this date, until the end of July 1933, when the agreement might be terminated by one month's notice.

The Conference Committee on Commercial Policy, after general discussion of the two main problems presented to it — viz., the abolition of quantitative restrictions on imports and tariff policy, including the most-favoured-nation clause — became involved in the conflict of policies which arose in connection with currency stabilisation. The hypothesis upon which discussion had proceeded had been that currencies would shortly

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[1] *Monthly Summary of the League of Nations*, Vol. XIII, No. 5, page 106, and Vol. XIII, No. 6, June 1933, pages 110 and 111 ; also League of Nations *Journal of the Monetary and Economic Conference*, London, 1933, No. 39, July 28th, 1933.

be stabilised, at least by a *de facto* arrangement. When it became clear that this hypothesis could not be realised immediately, several countries felt it necessary to reserve full liberty of action in regard to quantitative restrictions, exchange control and Customs tariffs. While other countries were prepared to take part in drawing up a constructive programme to be put into effect when currency stability had been achieved, it was not found possible to do more than register the measure of agreement that had tentatively been reached and the divergent views expressed upon methods by which trade restrictions might be removed or modified. [1]

Greater progress was made in the sub-committees which dealt with various forms of indirect protectionism. A resolution was passed recommending, in regard to indirect protectionism in general, that a clause should in future be inserted in commercial treaties stipulating that, if either party to the treaty considers any new practice (other than Customs tariffs or questions specifically settled in the treaty) to nullify or impair the object of the treaty, the other party shall not refuse to negotiate on this question. [2] It was further recommended that the attention of Governments should be drawn to the Convention of November 3rd, 1923, concerning the simplification of Customs formalities, and the opinion was expressed that the work of the Economic Committee of the League of Nations was sufficiently advanced in regard to many of these questions to warrant the convening of a special conference at an appropriate date.

The technical problems relating to veterinary and phytopathological regulations, which act as restrictions on imports, were also advanced a stage nearer solution. The Committee which considered this subject recommended that the Council of the League of Nations, at its next session, should convene a diplomatic conference to arrive at a new Convention regarding animal products. It referred the scientific and technical questions involved in regulating the import and export of plants and other vegetable products to the International Institute of Agriculture for further study. The principle was asserted, in this connection also, of international consultation before the application of new trade restrictions. [3]

Substantial disagreement prevented the adoption of unanimous recommendations regarding either the problems raised by the growing practice of requiring marks of origin, or the questions of subsidies and bounties. The committees on these questions

[1] League of Nations: Monetary and Economic Conference, "Report of the Bureau to the Conference", London, July 26th, 1933 (Conf.M.E.22), pages 22-24.
[2] *Ibid.*, page 30.
[3] Report, *op. cit.*, page 31.

therefore merely recorded the points upon which agreement had been reached and those upon which it had been impossible to reconcile divergent views. The proposals submitted to the Economic Commission by the International Labour Organisation recommending consideration of an international programme of public works were the subject of a brief discussion, in which divergent views were stated, but were not examined in detail.

The remaining group of subjects relating to the co-ordination of production and marketing came to occupy a prominent place in the deliberations of the Conference. In the early stages of its work, the Sub-Committee established agreement upon certain general principles to which it was considered desirable that any agreements to co-ordinate production and marketing of particular commodities should conform.[1] Those principles, while drawn in general terms, in effect confine the possibilities of agreement to a limited number of raw-material commodities and foodstuffs of wide usage. Smaller committees of experts were set up to consider dairy products, sugar, wine, coffee, cocoa, timber, coal, copper and tin, while negotiations which had been proceeding among experts representing the chief wheat-exporting countries were continued during the Conference period and were extended to conversations with other wheat-producing countries as well as importing countries. Definite agreement was not reached in any of these committees ; but it was noticeable that a strong tendency developed to support the work already being accomplished in the field of international regulation of production and marketing by such bodies as the International Sugar Council, the International Wine Office and the International Tin Commission. There was division of opinion, however, as to the desirability, in normal times, of agreements to regulate production and trade, and, while it was agreed that exceptional circumstances might call for such measures, several delegations insisted on the necessity of avoiding anything which might give the impression that the regulation of production could be defended except as a temporary expedient employed in abnormal circumstances.[2]

On the economic side of the Conference, therefore, while some progress was made in exploration of the practical difficulties involved both in the reduction of trade barriers and in the co-ordination of production and marketing, definite agreements were not reached except in preparatory fields. In the closing days of the Conference, the United States delegation communicated a detailed programme for further committee work during the

[1] Report, *op. cit.*, pages 19 and 20.
[2] *Ibid.*, page 18.

adjournment of the full Conference upon a series of detailed problems in the field of commercial policy. [1]

The Monetary Commission divided its work between two sub-commissions. The first dealt with " Immediate Measures for Financial Reconstruction ", including credit policy, price-levels, the limitation of monetary fluctuations, exchange control, indebtedness, and the resumption of international lending. The second dealt with "Permanent Measures for the Re-establishment of an International Monetary Standard ".

The second of these sub-commissions proceeded immediately to pass two resolutions to the effect that " stability in the international monetary field be attained as quickly as practicable " and that " gold should be re-established as the international measure of exchange values, time and parity being for each country to determine ". These resolutions were later supplemented by two others stressing the undesirability of using gold for internal circulation and advocating the reduction of legal minimum gold reserves, where the system of reserve ratios as cover for Central Bank liabilities is in force. [2] The two latter resolutions were passed upon the recommendation of an expert Sub-Committee set up to consider technical monetary problems connected with the working of the gold standard. As a result of further recommendations by the same Sub-Committee, other resolutions were passed, advocating the establishment of Central Banks in developed countries where they do not now exist, re-affirming the great utility of close and continuous co-operation between Central Banks and the important rôle in that respect of the Bank for International Settlements, and recommending those agricultural countries which desire advice upon the adaptation of their Central Banks to their special needs to consult the appropriate international organisations specially competent to advise on such matters. The Sub-Committee further considered a statement of general principles of Central Bank monetary policy, but did not recommend it for adoption as a resolution of the Conference, though it was agreed by all the Governments represented on the Sub-Committee, with the exception of that of the United States, which considered discussion of this subject premature, it being understood that the Federal Reserve Banks would be glad to confer at an opportune time with other Central Banks on questions of this character to the extent that they are compatible with national policies. [3]

Another sub-committee, composed of representatives of

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[1] Report, *op. cit.*, pages 41-43.
[2] *Ibid.*, page 12.
[3] *Ibid.*, pages 13 and 14.

silver-producing countries and of countries holding large silver stocks, recommended a resolution, which was adopted, aiming at the stabilisation of the market for silver. This resolution was implemented during the course of the Conference by a definite agreement signed by the principal countries concerned. The chief provisions of this agreement were an undertaking by the Governments holding large silver stocks to confine their sales within a maximum agreed figure for the next five years and a similar undertaking by the Governments of the producing countries to purchase amounts of silver which would offset such sales. These provisions, supplemented by others in which all the Governments undertook in principle to refrain from debasing their silver coinages, had for their object the freeing of the market from the disturbing sales of large quantities of demonetised silver.

The first Monetary Sub-Commission, dealing with " Immediate Measures of Financial Reconstruction", began its work by a general debate on credit policy and price-levels. While this debate was in progress, however, in the latter part of June, the fluctuations of the dollar exchange became greater and, in the early part of July, the rate rapidly approached parity with sterling. The fluctuations of the dollar which began in the second half of April came after a period of several months, during which the major currencies of the world had been relatively stable. Sterling, for example, had, since February 1933, maintained a fairly steady relationship with the gold currencies, and a great number of other currencies had maintained a stable relationship with sterling. The depreciation of the dollar therefore introduced a new and disturbing element, which was recognised in the official statements issued when the Conference was convened. At that time, exchange stabilisation was recognised as one of the major problems confronting the Conference.

By the time the Conference opened, the dollar, after falling in mid-April 10 per cent from its gold parity and remaining about that level till the end of the month, had, with some fluctuations, drifted lower, until its external value was 20 per cent below gold parity. Negotiations which took place independently of the Conference appeared to offer some prospect of early *de facto* stabilisation, and the exchange rose slightly in the middle of June ; but the breakdown of these negotiations led to renewed weakness, and by the middle of July the dollar touched parity with sterling for the first time since September 1931.

In face of these movements, which were accompanied by unusually wide fluctuations from day to day, the problem of exchange stabilisation was regarded by many of the delegations

as the most immediate and urgent task before the Conference. In published statements, however, the United States Government made it clear that the development of its domestic programme of industrial re-organisation and other measures designed to raise prices made impossible any commitment at the moment concerning stabilisation of the dollar exchange. When it became clear that there was no immediate prospect either of currency stabilisation by controlling the fluctuations of the dollar relatively to the gold currencies and sterling or of an international agreement whereby the other countries would join the United States in a policy aimed at raising prices, the proceedings of the first Monetary Sub-Commission reached a deadlock. [1] Subsequently, discussions were confined to the problem of indebtedness, concerning which the resolution was passed which has been referred to in a preceding chapter. [2]

The Conference held the final meeting of its first sessions on July 28th. The reports of the Monetary and Economic Commissions were adopted in plenary session and a resolution was passed authorising the Bureau to take whatever action it considered likely to promote the success of the Conference, whether by the convocation of any committee set up by the Conference or of representatives of States especially concerned in any particular problem, or by the reference to experts for study of any special question. The Bureau was also empowered to determine the date of the re-assembling of the Conference.

The American Experiment.

The first chapter of this *Survey* briefly summarised the outstanding economic developments between the summer of 1932 and March 1933. Subsequent chapters have, for the most part, been confined to analysing in further detail the various aspects of economic activity during that period. The general impression to be gained from such an analysis is that, while not all of the autumn recovery had been lost in the recession that set in during the winter, and while there was some evidence of a new equilibrium being achieved upon the basis of which the forces of recovery might have been expected to build, the situation in the first quarter of 1933 was precarious. The great event, which within a few weeks created a new and very different situation, was the launching and rapid development of the programme of domestic recovery in the United States. This programme, the

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[1] Report, *op. cit.*, pages 9-11.
[2] Chapter IX. See also Report, *op. cit.*, page 11.

beginnings of which were evident as soon as the new Administration took office early in March, did not begin to take definite shape until after the abandonment of the gold standard on April 19th. After that date, very far-reaching legislation was rapidly passed, giving unparalleled powers to the Executive, so that, by the time Congress rose on June 16th, all the machinery necessary for the execution of the new plan was in existence and energetic steps were being taken to bring that machinery into practical action.

The importance of the developing plan, the main features of which are outlined below, is to be found primarily in its effect upon the domestic recovery of prices and production within the United States, and it is this aspect of the new programme of action which has engrossed most popular attention. It is obvious, however, that concentration upon domestic recovery has implied not so much the disturbance as the neglect of international economic equlibrium. The practical manifestation of this fact is seen in the fluctuation of the dollar exchange relatively both to the gold and to the sterling currencies, which, as was pointed out in an earlier chapter, had been in relatively stable equilibrium since February. Not the least important aspect of the great experiment now in process lies, therefore, in the unresolved problem, first, whether the equilibrium which was in process of being established between the gold and sterling currencies can be maintained in face of the added complications caused by the depreciation that has already taken place in the dollar, and, secondly, whether the upward impetus imparted to the American price system can endure and be transmitted to other national price systems without the necessity of further depreciation in the dollar exchange to an extent which would definitely disturb the existing currency equilibrium and force competitive depreciation of other currencies. It is obviously premature at the present time to attempt even hypothetical answers to these questions. The depreciation of the dollar is, of course, by no means the only factor to be considered. Domestic circumstances and developments in other countries, both in the gold *bloc* and in the sterling *bloc*, will exercise an important influence. The maintenance of exchange stability may, in any case, prove difficult enough, even apart from the influence exerted by the course of the dollar exchange. Time alone will show whether the methods now being utilised to force a revival of prices and economic activity in the United States will prove effective without recourse to such further monetary action as may drive down the external value of the dollar still further. Whether in the working out of the experiment the rise of prices will spread to other countries in sufficient degree to assist them in maintaining the measure

of equilibrium so far achieved until the area of stabilisation can be extended to include the United States, or whether the disturbance caused by the experiment will further complicate international economic relations, is a question the answer to which must be recorded in future *Surveys*. At the present time, when the experiment is merely in its first stages, all that can be done is to summarise the main outlines of the plan of action as revealed in the legislation passed and the administrative steps already taken, and to record the actual developments of prices and economic activity in the meantime.

Even this limited task presents difficulties. The legislation passed covers a very wide scope, and the greater part of it is permissive rather than mandatory in character. The administrative machinery so far created is, at the time of writing (July 1933), only just beginning to function. It is not possible, therefore, to state with any certainty the precise ways in which it is likely to develop, the extent to which use will be made of the wide powers entrusted to the President's discretion, or the relative emphasis which will be given to one aspect or another of the developing plan in face of circumstances and attitudes that cannot yet be clearly foreseen. In the same way, it is possible to record the latest statistics of prices, employment, wages, production, trade and other economic phenomena ; but it is not possible to estimate the cause of such changes as have taken place. Economic forces work slowly and sometimes take unexpected directions. It is not yet clear how far the improvements and recessions of industry in the first weeks of the new plan's operation are due to that plan or the result of prior causes. Nor can it be expected that the forces liberated by the plan have yet produced their final or even their most important effects.

The plan, which has already passed through at least three major stages of development, is so far-reaching and has so many aspects that, in any brief summary, attention can be directed only to the salient features of the more important and overt measures already taken. Complicated details and latent possibilities must necessarily be ignored, though, in the process of development, some of these may eventually prove to be extremely important. The summary which follows is concentrated upon the domestic features of the plan, upon the assumption, which appears to be warranted by the facts, that its international aspects are, for the moment at least, regarded as secondary and have therefore been left largely to take their own course. It is obvious that, in any final estimate, the effects of the plan upon the external trade and finance of the United States must be taken into consideration ; but those effects depend upon

so many factors other than those arising from the domestic situation that they must be left aside for the present. The future course of prices in other countries, the reaction upon other exchange rates, upon tariff policy and trade restrictions generally cannot yet be foreseen.

The first immediate problem with which the new Administration was faced when it took office on March 4th, 1933, was the collapse of the banking system, which culminated on that very day with the proclamation of a national bank holiday and the closing of the Stock Exchanges. The vigorous measures taken to combat this situation have already been described in Chapter VIII. Besides the Emergency Banking Act signed on March 9th, and the Banking (Glass-Steagall) Act of 1933, signed on June 16th, reference should be made to the Federal Securities Act, signed on May 27th, laying down more stringent regulations to control the issue of new securities, and the Decree of April 5th prohibiting gold-hoarding and requiring the return of hoarded gold to the banks before May 1st.

The budgetary problem also demanded attention at a very early stage, and the new Administration, working with a new and politically sympathetic Congress, was able to take swift and effective steps to reduce expenses and increase taxation so as to reduce very considerably the alarming budget deficit that appeared to be in prospect. Approximately $500 million were saved by a 15 per cent reduction of civil service salaries and a 10 per cent reduction in the payments to war veterans, combined with more stringent administration of such payments. At the same time, the various schemes of domestic recovery summarised below called for increasing expenditure which it was planned to meet by means of new loans. The debt service on these loans, however, is to be covered by the proceeds of new taxes, mainly on individual and corporate incomes. There remained a substantial deficit, [1] involving a growing burden of floating debt. On July 31st, the Treasury invited subscriptions to a new issue of $500 million 3¼ per cent Treasury Bonds with a currency of eight years, and $350 million 1⅝ per cent Treasury Notes with a currency of two years. The prompt over-subscription of these issues, together with the extremely low rates ruling for shorter-term Treasury bills and the improvement of revenue receipts, enabled the President to claim that he had fully maintained the public credit, and that there was every reason to expect that the larger loan operations which will be necessary in the near future would be successful.

The emergency measures in respect of the banking crisis

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[1] Cf. Chapter VI.

and the situation of the public finances occupied the greater share of attention for the first few weeks of the new Administration's tenure of office, and the vigorous steps taken to gain control of these difficult problems were along lines generally regarded as orthodox. The introduction of the Farm Relief Bill to Congress on March 18th initiated the more experimental measures proposed by the Administration. As these measures developed between March and July they passed through three main phases. In the first phase, emphasis was laid upon a double programme of agrarian legislation to relieve the situation of the farmers, and of positive action, mainly in the promotion of public works, to relieve unemployment. The second phase began with the imposition of an embargo on the export of gold on April 20th and the acceptance of the Thomas amendment to the Farm Relief Bill, giving the President wide powers of an inflationary character. In this phase the emphasis was laid upon monetary measures to raise prices. The third phase of the plan began early in July, after prices had risen and production had increased substantially. The dominant feature of this phase is the stress laid upon the regulation of industry under the National Industrial Recovery Act, and especially upon the effort to increase employment and raise wages. It is evident that the Administration's plans have been rapidly improvised under the pressure of urgent changing conditions.

The main features of the agrarian programme are contained in the Agricultural Adjustment Act, which incorporates the earlier Farm Relief Bill, with its proposals for contraction of acreage, and the Farm Debt (Mortgage) Relief Bill, with its provisions for the re-financing of farm debt, as well as the so-called Thomas amendment, which became the basis of the second phase of the Government's programme.

The theory of this Act is that the shrinkage of agricultural income is a primary cause of the economic depression. Power is therefore taken to issue 4½ per cent Federal Land Bonds to the amount of $2,000 million, with the object of making mortgage loans to farmers at 5 per cent to enable them to repay existing mortgages carrying higher rates of interest. [1]

The main provisions of the Act, however, are concerned with an effort to rationalise agricultural production and prices so as to improve the farmers' income and purchasing power. The Secretary of Agriculture is given discretionary power to levy a tax on the processing of farm products, to allot production

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[1] The Home Owners' Loan Act, signed on June 13th, extends similar facilities to owners of house property, a further issue of 4 per cent bonds to the amount of $2,000 million being authorised for this purpose.

quotas, fix prices, and make " rental or benefit " payments to farmers who contract to reduce their production.

The application of these powers is best described in connection with specific commodities. The processing tax levied amounts to the difference between current average farm prices and the " fair exchange value ", which is defined as the 1909-1914 average purchasing power of farm products with respect to the articles farmers buy. To put the farmers in the same relative position as they enjoyed in 1909-1914, it is calculated that the prices of farm products should be 88.4 cents for wheat, 12.4 cents for cotton, 7.24 cents for hogs and 64.2 cents for maize.

The wheat processing tax was accordingly fixed at 30 cents a bushel, roughly the difference between the current price at June 15th and the standard price of 88.4 cents. The tax falls on the consumer, and the proceeds are distributed to farmers who have agreed to reduce their acreage in an agreed proportion. After the plan was launched, wheat prices rose quickly, largely on account of the comparative failure of the harvest, until the average price on farms was about 75 cents. Though later setbacks occurred, this rise in prices obviously reduced the discrepancy which it was desired to eliminate between the farmers' prospective income and expenditure. On June 21st, however, the Secretary of Agriculture strongly urged the fulfilment of the original plan, on the ground that it was necessary to take account of existing stocks and of future harvest prospects. [1]

The cotton plan has proceeded on very similar lines. The processing tax, however, was to go into operation on August 1st, and, at the time of writing, the amount is not known. The Government hoped to take ten million acres out of production by paying growers $7 to $20 per acre (according to the yield of their land) for ploughing under or mowing down cotton already

[1] The harvest prospects may be summarised in the following table taken from the International Institute of Agriculture's *Crop Report and Agricultural Statistics*, July 1933:

Production of Grain in the United States.

Crop	1933	1932	Average 1927-1931	1933 as percentage of	
				1932	1927-1931
	Quintals (000's)				
Winter wheat . . .	91,382	125,779	168,885	73	54
Spring wheat	43,522	72,035	69,036	60	63
Rye	6,436	10,124	10,255	64	63
Barley	37,002	65,305	58,981	57	63
Oats.	101,451	180,340	171,933	56	59
Maize	508,118	738,673	637,802	69	80

growing.[1] The price of cotton also advanced rapidly between March and June, mainly because of a sharp improvement in demand.

At this early stage it is impossible to judge the probable efficacy of the schemes for reducing production and raising prices by transferring to the producer the proceeds of a tax on the consumer representing the disparity between the prices of farm products and those of products purchased by the farmers. There are obvious difficulties in dealing with the prices of the products at later stages of manufacture, with the reactions on consumption and with speculative anticipation of the results expected from the plan. If such " overhead management of agriculture " were to be installed as a permanent system, it would obviously demand extensive planning and regulation of prices and production over a great part of the economic system. It is possible, however, that the experiment is planned only to meet the emergency of the present situation. The Act provides that all stocks of Government cotton shall be liquidated by March 1st, 1936.

It is clear that the agrarian programme as a whole consists of an attempt by Government action on a great scale rapidly to reverse the effects of lowered prices by redistributing income so as to restore agricultural purchasing power. The second phase of the recovery programme attempts this also by giving permissive powers to the President to use at his discretion a variety of inflationary methods to raise prices in general by monetary means. These proposals are contained in the Thomas amendment incorporated in the Agricultural Adjustment Act. The dollar may be devalued to any amount up to 50 per cent ; the Federal Reserve Banks may issue a further $3,000 million of bank-notes secured by Treasury promissory notes ; the Treasury also is given power to issue notes, and the President is empowered to accept silver in payment of war debts up to an amount of $200 million at 50 cents an ounce.

The use that will be made of these powers is not yet known. Coincident with the acceptance of this amendment by the Administration, an embargo was placed (April 20th) on the export of gold, with the result that the external value of the dollar depreciated rapidly. The abrogation of the gold clause in existing contracts referred to in the previous chapter and the refusal of the United States delegation at the Monetary and Economic

[1] Alternatively, the grower may elect to receive cash payments of $6 to $12 per acre, together with an option on an amount of Government-owned cotton equalling the reduction in his crop at 6 cents a lb. The scheme was immediately successful in restricting acreage, over 11 million acres being ploughed in or mown down, reducing the estimated acreage from 40.8 to 29.7 million acres. The harvest is therefore expected to fall from 16.6 to 12.3 million bales, as compared with 13 million bales in 1932, 17.1 million in 1931, and 13.9 million in 1930.

Conference to consider plans for currency stabilisation must be considered as part of the same phase of the recovery plan. Prices in general, aided by speculative anticipation of possible inflation, jumped immediately, and production, galvanised by the possibility of increasing costs of production, and by a general expectation of recovery, increased very rapidly before any use was made of the powers conferred under the Act. The diagrams reproduced in the final section of this chapter (see pages 320-1) reveal the extent of the rise in prices produced. Between April 19th and July 26th, the average level of wholesale prices in the United States rose approximately 25 per cent ; but in the middle of July, a sharp recession occurred in certain markets. The future course of prices and the use that may be made of the inflationary powers conferred by the Act remain obscure at the moment of writing. It seems clear that the depreciation of the external value of the dollar was a concomitant rather than a cause of the price advance which was due primarily to domestic factors. The falling exchange, however, acts as a barrier against any inrush of imports to take advantage of higher domestic prices.

The rapid rise of prices and expansion of industrial activity in May and June led to the third phase of the recovery programme — an effort by governmental initiative in the regulation of industry to promote employment and raise wages, with the object of increasing consumers' purchasing power so as to keep pace with increasing production. The National Industrial Recovery Act, in which these aspects of the plan are incorporated, consists of two main sections dealing with the regulation of labour and industrial conditions, and a comprehensive programme of public works and unemployment relief. To take the latter section first, a new organisation is created — the " Federal Emergency Administration of Public Works " — to make loans for construction purposes. The Secretary of the Treasury is authorised to borrow for this purpose $3,300 million. Operations under this part of the Act are expected to terminate within two years, and earlier if the President by proclamation, or the Congress by joint resolution, shall declare the emergency to be ended. In connection with this programme, various other measures (later incorporated in the National Industrial Recovery Act) should be mentioned — the Muscle Shoals power project, adopted on April 10th ; the Wagner Direct Relief Act, signed on May 12th, setting aside $500 million for unemployment relief, 50 per cent of which is to be used in subsidising public works schemes undertaken by States, the remainder being granted to public authorities whose relief funds are exhausted ; and the Act creating a Civilian Conservation Corps to give relief work to 250,000 men in the national parks and forests.

The first section of the Act and the spectacular drive to put its provisions into force through the National Industrial Recovery Administration have, however, attracted most public attention. Essentially it is a plan for the regulation of industry by the application of labour codes and competitive conditions, voluntarily agreed and supported by public opinion.[1] Certain industries, notably cotton manufacturing, were able to agree quickly upon codes of labour conditions, wages, hours, etc., which received the approval of the National Industrial Recovery Administration ; but progress in other industries was slow, and on July 24th a " blanket code " applicable to industry in general was approved by the President, to come into force on August 1st. Vigorous propaganda was immediately set on foot to bring all industries within the scope of the plan, either by codes voluntarily agreed upon or under the " blanket code ". It is obviously difficult quickly to secure agreement upon labour conditions and competitive codes in widely differing and often unorganised industries, as well as in wholesale trade and retail distribution. The major elements in the plan are provisions for higher wages, shorter hours and recognition of trade unions. The President is given power to license firms and, if need be, to withdraw such licences and thereby prohibit recalcitrant firms from operating. Greatest reliance up to the present, however, has been placed upon the pressure of public opinion and upon the enlistment of voluntary support in a national campaign for recovery. Apart from the stipulation that all firms engaged upon enterprises connected with the public works programme shall conform to the new codes, no Government action, other than persuasion, had been taken up till the end of July to enforce the plan.

In the midst of the first efforts to develop the National Industrial Recovery Administration, before the public works schemes are thoroughly under way, and while the regulation of agrarian production is not yet developed and the future course of monetary policy is not clear, it would obviously be premature to estimate the effects of the experiment.[2] It is not yet clear

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[1] The Emergency Railroad Transportation Act, signed on June 17th, consists of a plan to re-organise the railroad system. A Federal Co-ordinator is appointed to supervise competition, prevent duplication and increase railroad efficiency. This is a notable reversal, in many respects, of the policy pursued by the Interstate Commerce Commission, which was in general opposed to amalgamations.

[2] The administration of the plan is concentrated in the National Industrial Recovery Council, consisting of members of the Cabinet and the heads of the ten following administrations :

1. National Industrial Recovery Administration — to regulate, direct and approve codes of fair competition for industrial groups.
2. Transportation — to co-ordinate economic adjustments among the railroads, reduce wasteful competition and encourage financial re-organisation.

[Footnote continued on following page.

whether it will come to be regarded purely as emergency legislation, to be abandoned as soon as conditions improve, or whether part of it will survive and constitute a permanent change in the organisation of the country.

As the following table shows, there has been a marked increase in industrial production.

Industrial Production in the United States, adjusted for Seasonal Variation. [1]

(Base : Average 1923-1925 = 100.)

Month	Industrial production			Construction		Factory employment	Factory payrolls [2]	Department stores sales
	General index	Manufactures	Mining	Total	Residential			
1929 (average).	119	119	115	117	87	101	108	111
1930 (average).	96	95	99	92	50	88	87	102
1931 (average).	81	80	84	63	37	74	66	91
1932 (average).	64	63	71	28	13	62	45	69
1933 : January.	65	64	73	22	8	59	39	60
February	63	61	79	19	8	59	40	60
March .	60	56	81	14	8	57	37	57
April . .	66	66	72	14	10	58	39	67
May . .	77	77	78	16	11	61	42	67
June . .	89	90	83	19	14	65	46	66

Continuation of footnote [2] on preceding page.]

3. Reconstruction Finance Corporation — to make loans to banks, insurance companies and other financial institutions and to railroads, and in general to finance many of the recovery projects.

4. Federal Home Loan Bank Board — to re-finance mortgages of small home owners by means of a $2,000 million grant.

5. Federal Emergency Relief Administration — to direct allocation of the $500 million voted as direct grants to States for unemployment relief.

6. Emergency Public Works Administration — to direct the expenditure of the $3,300 million voted for public works to provide employment.

7. Tennessee Valley Authority — to develop hydro-electric power at Muscle Shoals and develop the industrial possibilities of the valley thus furnished with power.

8. Civilian Conservation Corps — to employ 250,000 men in reforestation and other conservative projects in national forests.

9. Federal Farm Credit Administration — to direct all farm credit activities, including the $2,000 million farm mortgage re-financing programme.

10. Agricultural Adjustment Administration — to carry out farm-relief programme, including control of crop production ; to direct all marketing activities, including the regulation of grain exchanges ; and to levy taxes on the processors of farm products to finance the programme.

(*New York Herald-Tribune*, Paris edition, August 14th, 1933.)

[1] *Federal Reserve Bulletin.*

[2] Unadjusted for seasonal variation.

It is interesting that, unlike the recovery in the autumn of 1932, recent increases in industrial production have been even more marked in the investment industries than in the consumption industries. This is particularly important in view of the great stress at present being laid upon the expansion of purchasing power and consumption.

Indexes of Industrial Production in the United States, adjusted for Seasonal Variation.[1]
(Base : Average 1923-1925 = 100.)

Industry	1932		1933	
	July	Maximum reached between August and December	March	June
Iron and steel	25	31	21	72
Textiles	69	104	76	133
Food products	81	95	91	101
Paper, printing	86	91	85	85
Lumber	25	24	22	38
Automobiles	33	60	27	66
Leather and shoes	77	94	85	108
Cement	50	55	40	51
Tobacco, manufactured	114	112	99	135
Coal : Bituminous	46	67	51	63
Anthracite	55	75	77	65

Other information concerning the recovery in the United States is contained in the following section of this chapter.

Symptoms of Recovery.

The greater part of this *Survey* was written in the early months of 1933, before the abandonment of the gold standard by the United States of America and the development of a positive programme of domestic recovery in that country. The material used consisted for the most part of statistical data for the period ending with the first quarter of 1933. Up till that time, the economic situation might be summarised as a drift towards further deterioration after the revival of economic activity in the second half of 1932. Not all of the progress had been lost and there were some favourable developments, such

[1] *Commercial and Financial Chronicle*, July 29th, 1933.

as the improving terms of trade and consequent revival of purchasing power, in certain agricultural countries, notably Australia ; but, in face of the failure to break through the tightening restrictions on international trade, the revival seemed to have been checked and in many countries the economic situation threatened to become critical once again.

In the second quarter of 1933, the forces making for recovery appeared to be galvanised into renewed activity by the definite measures taken to raise prices in the United States. By the turn of the year, while the economic situation still retained many ominous aspects and while the great problems of international co-operation remained unsolved, there was no longer any doubt that substantial advances had been made in prices and production. The lowest point of the business cycle appeared to be past. Production had increased, prices were rising, in many countries unemployment was falling and investment was being resumed.

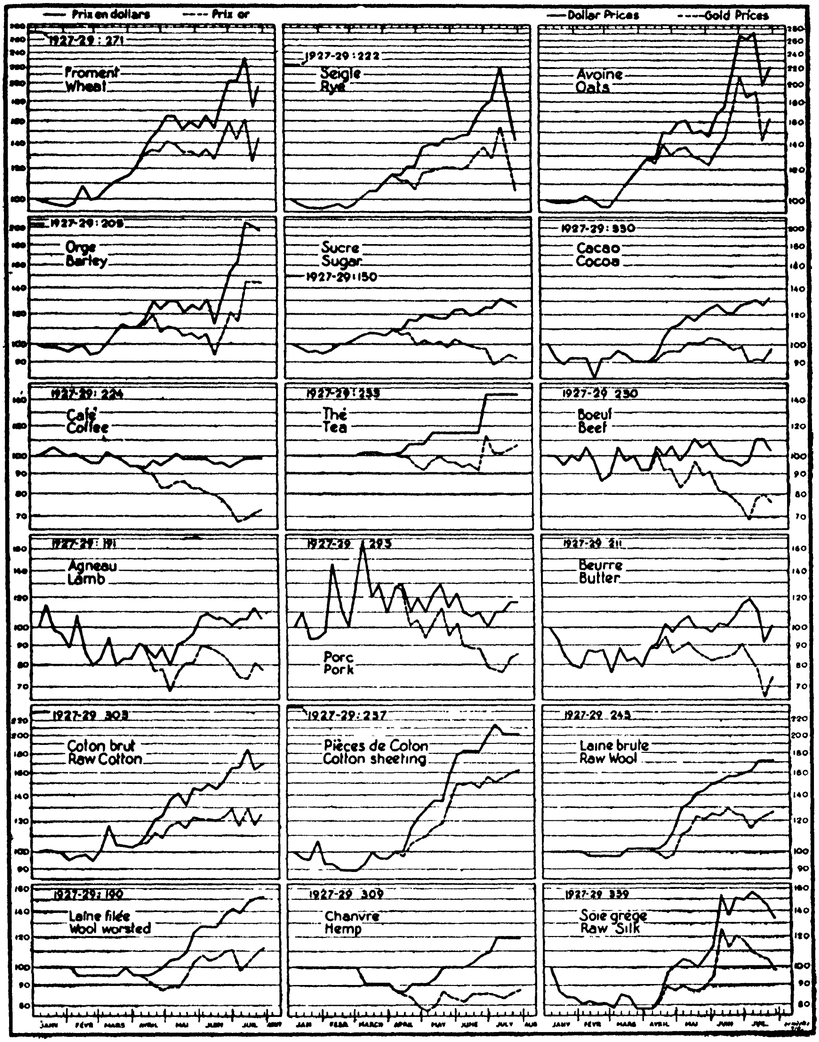
It is interesting to observe the contrast between the developments in the spring of the last three years. In May 1931, the troubles of the Austrian Credit-Anstalt ushered in a period of financial panic. In the spring of 1932 the panic was spent, and the financial improvement betokened by the great conversion operations of the British Treasury, the political settlement which appeared likely after the successful Conference at Lausanne, and the positive monetary action by the Federal Reserve Banks and the Reconstruction Finance Corporation in the United States, together with the natural forces of recovery after a prolonged liquidation of excessive credit, had promoted the first real signs of economic recovery since the depression began. The recovery now in progress in the summer of 1933 is more substantial than that a year ago, and, while it is obvious that many difficulties and obstacles remain which may cause setbacks during the winter months, more confidence has been generated and there has been genuine improvement of price equilibria.

The rise in the price-levels which has occurred has been most marked up to the present in the United States and, as the following diagrams clearly indicate, it is for the most part a rise in paper prices.

In this connection, it should be observed that the rise of prices in the United States between April and July was markedly less than the depreciation in the exchange value of the dollar. In other words, the dollar appeared to be undervalued in terms of other currencies — a phenomenon that occurred also when the sterling exchange first depreciated and in almost every other case of exchange depreciation. Speculation is active in foreign exchange, and fears of further depreciation induce forward

The Rise of Wholesale Commodity Prices in the United States, January-July 1933. [1]

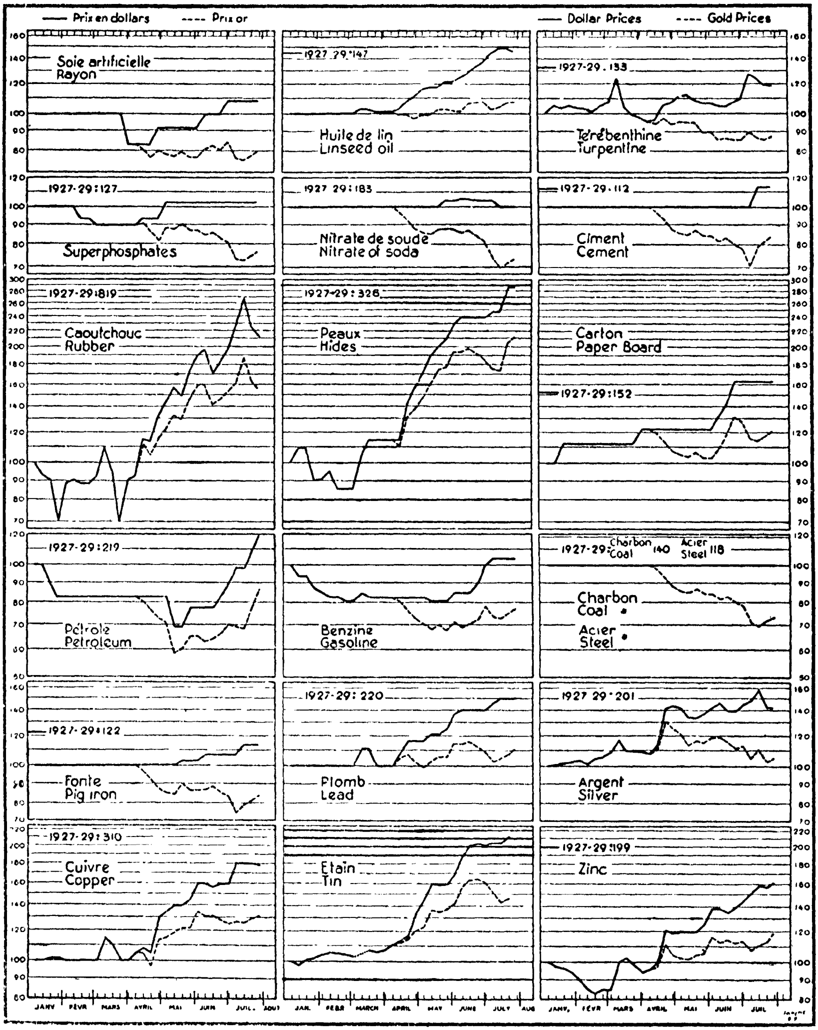
(Base : January 1933 = 100.)



[1] League of Nations *Monthly Bulletin of Statistics*, August 1933.

The Rise of Wholesale Commodity Prices in the United States, January-July 1933 (continued). [1]

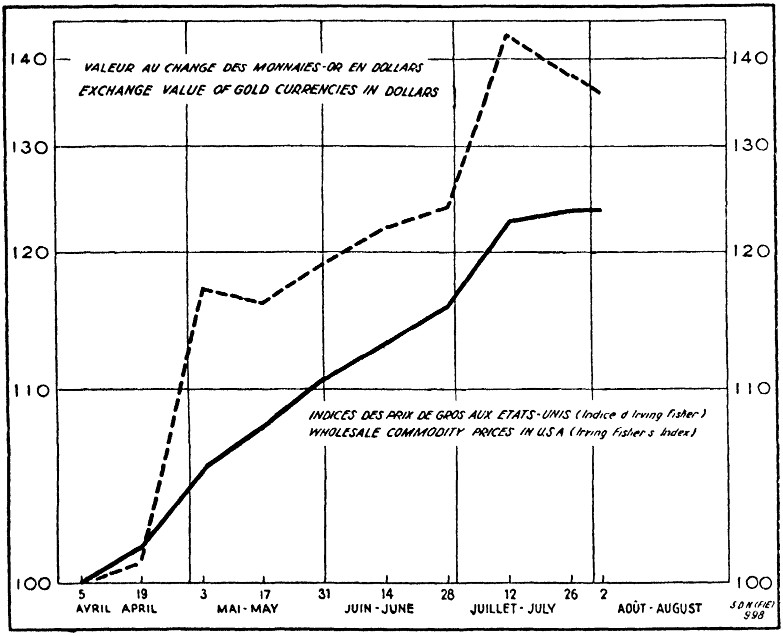
(Base : January 1933 = 100.)



[1] League of Nations *Monthly Bulletin of Statistics*, August 1933.

selling. There appears, therefore, apart from the effect of price movements in other countries, to be a substantial margin by which prices might still rise in the United States before the internal and external values of the dollar are brought into equilibrium. For convenience of calculation, the depreciation is shown on the diagram below in terms of the gold parity; but it should be remembered that sterling and all the currencies associated with it remained stable in terms of the gold currencies during this period.

The Internal and External Value of the Dollar.
(Base : April 5th, 1933 = 100.)



While the rapid increase in dollar prices revealed in these diagrams is greater than the rise either in gold prices or in other national price-levels, there has been, as the following table proves, a widespread, if slower, tendency for the average levels of wholesale prices in many countries to rise.

While the rises in the average price-levels so far recorded have been slight compared with the heavy fall after 1929, they have largely been the result of increases in the prices of those raw materials and foodstuffs which had fallen most heavily.

Index-Numbers of Wholesale Prices. [1]
(Base : 1913 = 100.)

Country	1930	1931	1932	1933						
	Average	Average	June	January	February	March	April	May	June	July
Germany	125	111	96	91	91	91	91	92	93	94
Argentine	122	118	119	113	113	112	112	112	113	...
Australia	147	131	128	123	122	122	125	129	...	...
Belgium	108	90	75	75	75	73	72	72	73	73
Canada	135	113	104	100	99	101	102	105	106	110
Denmark	130	114	113	117	124	123	122	123	123	125
U.S.A.	124	105	92	87	86	86	86	90	93	...
France	112	102	86	83	82	79	79	78	82	81
India	116	96	86	88	86	82	84	87	89	91
Dutch East Indies.	134	105	84	78	77	76	74	75		...
Italy	411	342	304	296	293	287	282	282	285	283
Japan	137	116	111	140	136	134	133	134	136	138
New Zealand . . .	143	133	129	125	130	129	129	130	130	...
Netherlands . . .	117	97	78	75	74	72	71	72	73	...
United Kingdom .	119	104	98	100	99	98	97	99	102	102
Sweden	122	111	108	106	106	105	105	106	106	...
Switzerland. . . .	126	110	94	91	90	90	91	92	91	92
Czechoslovakia . .	117	107	98	96	96	95	95	96	98	97

The disequilibria upon which stress was laid in Chapter II have therefore been reduced.

There are other indications that the rise in the general level of prices is beginning to correct the disequilibria between different kinds of prices. The levels of retail prices in most countries have either continued to fall or have risen much less than those of wholesale prices. Agricultural prices have increased more than industrial prices in the United States, Canada and Germany. The relation between export and import prices has improved in many agricultural countries — *e.g.*, Denmark, the Dutch East Indies, Australia and New Zealand.

There has also been a marked gain in industrial production, greater than the seasonal average, not only in the United States, but in many other countries. [2] In the table on page 325, monthly

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[1] *Monthly Bulletin of Statistics*, August 1933.

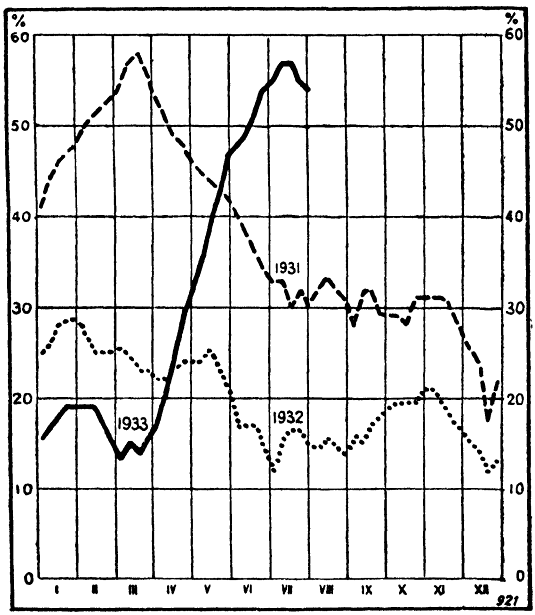
[2] The index of industrial production in fourteen countries (excluding the U.S.S.R.) published by the Institut für Konjunkturforschung (*Wochenbericht*, August 9th, 1933) was (Base : 1928 = 100) :

	January	February	March	April	May	June
1932	70.8	69.2	68.2	65.3	64.0	63.2
1933	69.0	67.8	66.4	70.5	76.3	85.0

movements of the indices of industrial production are given for the year 1932 and the first six months of 1933.

The evidence of the general indices might be supplemented by more specific indications of improvement in particular industries. In the United States, steel-mill operations, which in the week ending July 5th, 1932, fell to 12 per cent, in the week ending July 1st, 1933, were at 53 per cent, of capacity. Car loadings, electric-power production and similar indices of productive activity also increased very considerably. As the following diagram shows, however, a recession set in about the middle of July. The significance of this recession cannot be appraised at the moment. It may prove to be only a temporary setback in what has been a very rapid advance, or it may possibly indicate serious weaknesses in the present economic position. It is probable, however, that, apart from speculative advances, there was a more solid core of recovery based upon a definite upward swing of the trade cycle.

Steel Production in the United States. [1]
(Percentage of capacity used.)



[1] *Affärsvärlden,* August 27th, 1933.

Monthly Indices of Industrial Production, 1932-33. [1]

(Base : 1928 = 100.)

Country	1932 I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	1933 I	II	III	IV	V	VI
Germany [2]	62	63	61	61	62	61	60	59	60	61	62	62	62	64	65	65	68	70
Austria [2]	72	75	72	72	63	63	59	62	62	66	66	59	61	61	61	63	64	...
Belgium	72	69	68	67	66	63	49	51	66	69	74	73	72	67	70	70	80	75
Canada [2]	68	69	65	58	63	65	63	63	61	60	61	58	53	52	53	55	62	68
U.S.A. [2]	65	62	60	57	54	53	52	54	60	60	59	60	59	57	54	60	69	80
France	83	79	77	75	74	73	72	73	74	75	76	77	79	81	83	84	85	88
Japan	96	100	108	104	107	104	107	106	109	113	119	125	117	115	130	126	131	...
Poland [2]	52	52	53	55	55	54	54	55	53	56	57	49	47	51	47	53	55	58
United Kingdom [3]		90			89			83			90			89			[4]	
Sweden [2]	93	91	96	84	88	77	71	78	82	80	83	84	84	86	86	81	84	82

[1] League of Nations *Monthly Bulletin of Statistics*, No. 8, 1933.
[2] Adjusted for seasonal variation.
[3] The Board of Trade index.
[4] The production index of the London and Cambridge Economic Service remained constant from the first to the second quarter of 1933. There is normally a definite seasonal decline in the second quarter of the year.

Changes in the unemployment situation are not so definitely favourable. In Germany, a substantial improvement has occurred in the numbers of unemployed registered (from 6,013,612 in January to 4,856,000 in June). In Australia, the United States and the United Kingdom, the statistics reflect substantial improvement also ; but, in practically every other country, unemployment in the middle of 1933 appeared to be greater than in the corresponding months of 1932.

The statistics of international trade up to the middle of the year showed little evidence of improvement. The diagram reproduced as a frontispiece to this volume indicates that the decline in the value of world trade, while slowing down, had not been reversed in the first half of 1932. The most recent statistics available are reproduced in the table below. In the first six months of 1933, world trade fell in value to 34.5 per cent of what it had been in the corresponding period of 1929.

Imports and Exports of Forty-five Countries representing about 90 *per cent of the Value of World Trade.*
Gold $ (000,000's).

Year	Imports					
	I	II	III	IV	V	VI
1929	2,836	2,471	2,658	2,872	2,808	2,629
1930	2,605	2,331	2,428	2,321	2,320	2,202
1931	1,743	1,613	1,798	1,715	1,684	1,649
1932	1,141	1,129	1,166	1,151	1,093	1,086
1933	940	898	1,010	908*	967*	934*

Year	Exports					
	I	II	III	IV	V	VI
1929	2,516	2,299	2,503	2,471	2,414	2,354
1930	2,252	2,072	2,197	2,007	2,068	1,863
1931	1,516	1,445	1,570	1,474	1,450	1,379
1932	994	1,007	1,024	1,004	921	891
1933	848	815	898	773*	834*	837*

Reference has already been made in Chapter X to the almost complete stoppage of foreign lending and to the increasing difficulties in which many countries have been involved in

* Provisional.

meeting their international payments. At the middle of 1933 there had not been time for either the upward movement of prices or the relief given by the depreciation of the dollar to exert a marked effect upon the balances of payments. There is good reason to expect that both these factors will further improve the international economic position of the agricultural-exporting, debtor countries, but the persistence of excessive trade restrictions and other unsolved international economic problems sets obvious limits to any such improvement.

One clear indication of the importance of such unresolved problems is afforded by the harvest statistics for 1933. There has been a considerable failure of the crops in the United States and, to a less extent, in Canada, but the harvest in Europe is abundant. Thus it is estimated that the production of wheat in ten European countries will be 190 million quintals, as compared with 171 in 1932, and it is known that the harvest in other countries, notably France, is large. While the net result in the northern hemisphere will be a substantial diminution in the 1933 crop, the situation is affected also by the possibility of good harvests in Australia, the Argentine and other producing countries in the southern hemisphere.

At the end of July 1933, there was more confidence and greater economic activity in the world as a whole than at any time since the financial panic began in the spring of 1931. The revival in economic activity, however, varied greatly from country to country. The development of the experimental plans for recovery in the United States was being watched with the closest attention, and even anxiety, all over the world. The hope persisted that, whatever the outcome of particular experiments, the forces of recovery evident not only in the United States, but elsewhere, would develop further strength. At the same time, it was clear that great and difficult problems remained unsolved, particularly in the sphere of international economic and financial relations. Indebtedness, currency instability and excessive trade restrictions were obstacles to recovery that could not be expected to vanish without positive action based upon international agreement. Rising prices, increased production and purchasing power, and reviving confidence, leading to more balanced national economic organisation in many important countries, might, it was hoped, make possible in the near future a more positive and constructive approach to these outstanding international problems.

Appendix I.

CHRONOLOGY OF EVENTS, JULY 1932 TO JULY 1933.

1932.

JULY 1 United States of America budget deficit for 1931-32 announced as $2,885 million.

English Treasury announces conversion of 5% War Loan.

Treasury ban on new capital issues in United Kingdom.

Japan introduces foreign exchange control.

France : General reduction of import quotas (10 to 30 per cent).

5 Beginning of Belgian coal strike (continued to September 7th).

8 Lausanne Agreement signed.

11 Governing Body of the Bank for International Settlements recommends restoration of the gold standard along the lines of the League's gold report.

12 United Kingdom introduces 20 per cent tariffs on Irish goods from July 15th.

Uruguay : Moratorium on commercial debts.

14 Publication of the Belgian, English, French and Italian Gentlemen's Agreement (not to ratify Lausanne Agreement before war debts to United States of America are settled).

16 Ouchy Agreement for tariff reduction initialled by Belgium, Luxemburg and the Netherlands.

18 Turkey becomes Member of the League of Nations.

21 British Imperial Conference opened at Ottawa.

President Hoover signs Emergency Relief and Construction Act, broadening functions of the Reconstruction Finance Corporation.

22 President Hoover signs Home Loan Bank Bill with Glass rider increasing National Bank note issue.

26 Irish retaliatory tariffs imposed on British goods.

28 Bolivia-Paraguay frontier troubles commence.

31 National-Socialists double their number of seats in Reichstag elections.

JULY : During this month :

Wholesale prices began to rise in the United States, France, India, Japan and the Scandinavian countries. Discount rates were lowered in Danzig, Hungary and India and industrial shares began to rise in practically all countries.

AUGUST 2 Issue of French colonial loans amounting to 596 million francs at 4 ½ per cent.

3 United States Treasury announces first issue of National Bank notes under Home Loan Bank Act (Glass rider).

11 British loan to Estonia, 1,300,000 krone for four years.

13 Persian foreign trade monopoly expanded.

14 Swiss banks grant Roumania 2 ½ years' credit, 50 million francs at 4 ½ per cent.

19 United States of America Commodities Finance Corporation created.

Conclusion of Ottawa Conference. Empire Trade. Agreements signed.

22 Dutch Treasury bonds issued (75 million florins, 3%).

24 Austrian National Council ratifies Lausanne Protocol for the new League of Nations loan.

27 Compulsory delivery of foreign exchange in Denmark suspended.

30 British Treasury announces new conversions (£13 million, 4 ½% War Loan and £140 million 4 ½% Treasury bonds).

Italian banks reduce deposit interest rates.

Japan creates fund to regulate foreign exchange rate.

Embargo on British capital issues partially relaxed.

AUGUST : During this month :

Production began to increase in the United States, France, Austria, Hungary, Sweden and Czechoslovakia. Wholesale prices began to rise in the United Kingdom, Australia, Canada, Belgium, Switzerland, Czechoslovakia, but there was a recession in France. Discount rates were reduced in Austria, Chile and Japan.

SEPTEMBER 1 President Hindenburg signs Economic Emergency Decree.

5 Opening of Stresa Conference on South-East European financial and economic questions.

6–14 Enquiry by delegation of Financial Committee of the League into the financial and economic situation of Roumania.

SEPTEMBER 14 Greece makes an arrangement with its creditors with regard to annual interest service.

15 Japan recognises Manchukuo.

16 Germany refuses to take further part in the Disarmament Conference until its equality of armament rights is recognised.

17 French conversion (85 milliard francs of stocks converted into 4½%, 75 years).

21 Reduction of German Bank rate to 2 per cent.

22 Italian proposal of an international Convention of a forty-hour week brought before the International Labour Office Governing Body.

27 German Emergency Decree to relieve agriculture from its interest burden.

28 English liberals (Samuel group) retire from National Government.

Panama : partial moratorium on external debts.

Hungary : Stock Exchange opened for nineteen stocks.

SEPTEMBER : During this month :

Industrial production began to increase in Germany, Belgium and Japan. World production of pig-iron and steel also began to increase. Wholesale prices began to rise in Greece, Italy and the Netherlands, but there was a recession in Canada and Czechoslovakia. Discount rates were reduced in Germany, Sweden and Czechoslovakia.

OCTOBER 1 Italian foreign exchange regulations gazetted.

3 Lytton Commission report published and presented to the League of Nations.

Iraq becomes Member of the League of Nations.

4 Australian Conversion 3½% Loan issued.

11 British issue of £150 million 2% Treasury Bonds 1935-1938.

13 Bolivia : one year's moratorium for bank and private debt.

Brazil : two months' moratorium for all private debts in Brazilian currency.

14 Australia : general increase in tariffs, providing increased preference on British products.

15 Yugoslavia : default on two Paris Loans (1906 and 1911).

17 The United Kingdom gives notice of its intention to terminate the commercial treaty with Russia.

21 New Zealand ratifies the Ottawa Agreement.

OCTOBER 22-26 Third Balkan conference at Bucharest.
31 Preparatory Commission meets in Geneva to prepare World Economic Conference.

OCTOBER : During this month :

Industrial production began to increase in Poland. Wholesale prices began to fall again in the United States, United Kingdom, Italy, Australia, Belgium and Denmark. Discount rates were reduced in South Africa, Denmark, Spain, Hungary and Poland. Industrial shares began to fall in all countries except Japan.

NOVEMBER 3 Issue of £300 million 3% British Conversion Loan.
8 Franklin D. Roosevelt elected President of the United States of America.
10 English note asking for war debt postponement.
11 French note asking for war debt postponement.
16 Report of British Unemployment Insurance Commission published.
French Post Office Savings Banks reduce interest rate (3 ¼ to 2 ¾ per cent).
17 Third Indian Round Table Conference opened in London.
Germany : Von Papen's Government resigns.
23 The United States of America refuses postponement of war debt payments due on December 15th.

NOVEMBER : During this month :

Industrial production began to increase in Canada, but declined in the United States and Czechoslovakia. Wholesale prices began to fall in India and Sweden but rose in Yugoslavia.

DECEMBER 1 Oslo powers negotiate at The Hague in regard to their position at the Monetary and Economic Conference.
Brazilian Government prohibits new coffee plantations for three years.
Italian Government's consent becomes necessary for all future industrial investments.
2 General von Schleicher becomes Chancellor in Germany.
6 President Hoover's message to Congress includes forecast of budget deficit of $1,142 million.
11 Five Powers sign an agreement at Geneva recognising Germany's equal right to arm, " when such conditions exist which offer security to all nations ".

DECEMBER 11 Germany resumes her position at the Disarmament Conference.

Third English note on war debts. England offers to pay, but only as a part of final settlement.

Third American note. Payment insisted upon according to the war debt settlement.

12 Fourth English war debt note.

Sino-Russian diplomatic relations restored.

Anglo-Persian conflict brought before the Council of the League of Nations.

13 Herriot Cabinet resigns.

15 The United Kingdom pays £29.5 million sterling (£19.6 million gold) war debt instalment to the United States of America out of Bank of England gold reserve.

Instalments also paid by Italy, Czechoslovakia, Finland, Greece, Latvia, Lithuania, Roumania and Yougoslavia.

France, Poland, Belgium, Estonia and Hungary do not pay.

18 Little Entente conference in Belgrade.

19 President Hoover suggests to Congress the formation of a commission of both political parties to deal with war debts, disarmament, etc.

23 The Netherlands postpones ratification of Ouchy agreement until France, the United Kingdom and Germany have accepted the exception from the most-favoured-nation clause involved in the agreement.

The Netherlands : general increase in tariffs.

27 South Africa leaves the gold standard.

30 French Parliament ratifies the Lausanne Protocol and the Austrian loan.

DECEMBER : During this month :

Industrial production began to fall again in Germany, Austria, Canada and Poland. Wholesale prices began to fall in Finland, the Netherlands and Norway. The discount rate was lowered in Greece.

1933.

JANUARY 1 Finland : short-term loan of £1,000,000 contracted in Stockholm.

9 Second session of the Preparatory Commission for the Monetary and Economic Conference.

JANUARY 11. Negotiations for an agreement with the creditors of the Credit-Anstalt concluded.

M. Stalin reports to Central Committee and Central Control Commission of Communist Party on the results of the first Five-year Plan.

A programme for the second Russian Five-year Plan announced.

11-25 International Labour Conference at Geneva for the reduction of working hours.

16 Control Committee of the States guaranteeing the Austrian loan of 1923 met to discuss the issue of new Austrian international loan.

17 Yugoslavia : three years' moratorium negotiated on all payments to foreign holders of Yugoslav bonds.

20 Close of Preparatory Commission and publication of Draft Annotated Agenda for the Monetary and Economic Conference.

South African pound reaches parity with sterling.

Invitation from the United States of America for a British delegation to discuss the war debt question.

23 Italy : Cabinet decides to create an industrial reconstruction institution :

(1) For the financing of industrial enterprises, and

(2) For industrial demobilisation.

24 League Protocol concerning financial collaboration with Roumania signed.

25 The United Kingdom accepts the invitation of the United States of America to open debt negotiations at beginning of March, but proposes to postpone discussion of economic problems to the Monetary and Economic Conference.

30 Opening of official Standstill Conference at Berlin.

Resignation of German Cabinet.

31 Herr Adolf Hitler becomes Chancellor of Germany.

M. Daladier forms new French Cabinet.

JANUARY : During this month :

Industrial production began to increase again in Germany. Discount rates were reduced in Hungary and Italy.

FEBRUARY 1 British Ambassador opens negotiations with Mr. Roosevelt in regard to war debt conferences.

2 Italy announces willingness to participate in war debt negotiations.

FEBRUARY 2 The United States invitation also issued to Latvia, Lithuania, Finland and Czechoslovakia.

4 International Steel Cartel renewed for five years.

6 Hungary terminates all clearing conventions except that with Austria.

8 Mr. Roosevelt invites forty-eight governors of the States to a conference at Washington in March, in order to examine various relief measures.

9 Mr. de Valera becomes Prime Minister of Irish Free State.

11 Hungary : Standstill Agreement renewed.

14 The Bank for International Settlements share of Reichsbank's credit prolonged for three months.

British Imperial Committee on Economic Consultation and Co-operation meets.

Union Guardian Trust Co. in Detroit closes down.

An eight-day banking holiday declared in State of Michigan.

17 Negotiations concluded for renewal of German Standstill Agreement.

20 New York Federal Reserve Bank agrees for ten days to take over forced sales of bills at one-half per cent to strengthen cash reserves of weak banks.

21 House of Commons approves Austrian Loan Bill.

Berlin : negotiations begun for the renewal of the municipal Standstill Agreement expiring on March 15th.

The United States of America : banks in New York and New Jersey permitted to limit withdrawals of deposits. Governor of Michigan assumes dictatorial banking powers.

22 British and French Ambassadors renew negotiations with Mr. Roosevelt in regard to a future war debt conference.

Following upon Ouchy Convention of June 1932. Belgium, the Netherlands and Luxemburg sign trade and shipping agreement on the basis of the recommendations of the Economic Committee of the League.

23 Following ultimatum to China, Japan advances on Jehol.

Re-organisation of Detroit banks planned. Emergency banking legislation in Indiana and New Hampshire.

25 President Hoover signs Couzens Bill. Emergency banking legislation in Maryland, Missouri, Nebraska, Wisconsin, Iowa, Florida and Oklahoma. Banking holiday in Baltimore.

FEBRUARY 27 Text of Little Entente pact signed by Yugoslavia, Roumania and Czechoslovakia published.
General moratorium authorised in States of Indiana, Missouri, Arkansas and Wisconsin.
British embargo on exportation of arms to China and Japan.
Withdrawals restricted in Ohio and Indiana.
28 Pennsylvania, Delaware and West Virginia restrict withdrawals of bank deposits.

FEBRUARY : During this month :

Wholesale prices began to rise in Denmark and New Zealand. Discount rates were reduced in South Africa and India. Industrial shares began to fall in Japan.

MARCH 1 Banking holiday in Kentucky, Tennessee and Alabama.
Withdrawals restricted in Washington, St. Louis, Illinois, Arkansas, Philadelphia and Minnesota.
2 Banking holiday in Oklahoma, Nevada, California, Oregon, Louisiana, Arizona, Texas, Idaho, San Francisco. Stock exchange closed.
New York Bank rate raised from 2 ½ to 3 ½ per cent.
3 Banking holiday spreads to five more States, making a total of thirty-seven.
4 Inauguration of President Roosevelt.
Banking holiday in New York and Illinois.
All banking operations suspended.
New York Assay Office refuses to sell gold for Federal Reserve notes.
Dealings in dollars suspended and gold bullion market closed in London.
6 German elections return a majority for the Nazi Government.
The United States of America : President Roosevelt decrees national banking holiday ; prohibits all foreign banking operations ; imposes an embargo on gold and silver exportation ; empowers Treasury to permit certain banks restricted operations, including the issue of Clearing House certificates and authorising the creation of special accounts for new deposits.
7 Secretary of Treasury promulgates new rules for banking activities. Federal Reserve Banks resume normal operations. Banks re-open under restrictions.
9 President Roosevelt lays his crisis proposals before Congress.

MARCH 10 President Roosevelt extends banking holiday for indefinite period and signs Banking Bill to support the emergency Decrees to prevent gold hoarding, to control and re-organise banks, to authorise lending to member banks on new collateral and to provide for issue of Federal Reserve Bank notes against individual and corporate assets as well as Government securities.

11 \$200 million of gold returned to Federal Reserve Banks in three days.

13 Four hundred banks re-open in the twelve Federal Reserve districts. Foreign exchange dealings limited. London resumes dealings in dollars.

14 One thousand banks re-open in districts having Clearing House associations. Banking Bill amendment gives non-member banks access to Federal Reserve Banks.

15 General re-opening of United States banks. Hoarded gold returns : \$300 million in ten days.

New York Stock Market re-opens.

Dollar rate with other gold countries touching export point.

16 British plan presented to Disarmament Conference.

17 New British 2½% Conversion Loan, to be allotted in instalments with Treasury Bills.

18 Announcement of Signor Mussolini's Four-Power Pact proposals.

20 President Roosevelt signs Economy Bill involving \$500 million reductions in expenditure on Veterans' Pensions and Federal salaries.

23 Reichstag passes Enabling Bill giving Herr Hitler dictatorial powers for four years.

27 Japan gives formal notice of her withdrawal from the League of Nations.

Arrest of six British subjects — employees of Metropolitan-Vickers Electrical Co. — in Russia, on charge of sabotage.

MARCH : During this month :

Industrial production began to increase in Japan and Canada. Wholesale prices began to rise again in the United States, Canada and Peru. Discount rates were reduced in Austria, Czechoslovakia and Portugal, but increased in New York. Industrial shares rose in Germany, Sweden and Switzerland.

APRIL 3 British fiduciary note issue reverts to the normal statutory amount of £260 million.

3-14 Financial Committee of the League of Nations enquiry in Bulgaria.

5 Agricultural Conference of Eastern European States at Bucharest.

6 President Roosevelt signs two Decrees authorising gold payments for commercial transactions ; forbidding the possession of more than 100 dollars in gold under heavy penalties.

President Roosevelt addresses official invitations to British Prime Minister and to the French Government to visit the United States to conduct preliminary negotiations concerning Monetary and Economic Conference.

7 Reichsbank's decision to repay rediscount credit of $70 million, granted in June 1931, announced to Bank for International Settlements.

8 President Roosevelt invites representatives of Italian and German Governments to take part in preliminary discussions at Washington in preparation for Monetary and Economic Conference. Canada, China, Argentine, Japan, Brazil and Chile also invited.

9 Germany : Gleichschaltung — law to bring German States and communes under direct control of the Reich. Text of Roumania's new agricultural debt conversion scheme published.

Substitution by Chinese Government of national silver dollar for the tael.

13 Roumania approves ratification of the agreement concerning technical co-operation with the League.

14 France : Chamber passes 1933 budget with deficit of 4,177 million francs.

19 Danish loan of £1 million to be issued in London. The United Kingdom places embargo on Russian goods.

20 The United States of America imposes embargo on gold exports.

Thomas amendment to Farm Bill conferring exceptional powers upon President Roosevelt for the regulation and control of United States currency policy presented to Congress.

22 Greece requests renewal of American credit of $7,500,000.

23 Conversations between President Roosevelt and Mr. MacDonald open at Washington.

APRIL 23 Soviet Government imposes boycott on British goods and services during period of British embargo on Russian goods.

24 Anglo-Danish Trade agreement signed.

25 United States : Treasury Issue of $2\,^7/_8$% $500 million loan reimbursable in three years.

26 Credit-Anstalt agreement with its foreign creditors signed.

28 New concession to Anglo-Persian Oil Company agreed upon.

29 Meeting of Organising Committee fixes June 12th as date of Monetary and Economic Conference in London.

Conclusion of French Treasury loan of £30 million from British bankers for a period of six months at an interest rate of 2½ per cent.

APRIL : During this month :

Industrial production began to increase in the United States. Wholesale prices began to rise in Australia, Chile, India, Switzerland and Czechoslovakia. Discount rates were reduced in New York and Roumania. Industrial shares began to rise in Belgium, Canada, the United States, France, Japan and Czechoslovakia.

MAY 1 Anglo-Argentine commercial agreement signed.

Text of Anglo-German trade agreement published.

The United States Government abrogates gold clause.

4 Decree of Italian Government authorises increase in Customs duties.

6 League commences financial enquiry into the financial and economic situation of Greece.

8 The United States Government proposes a Customs truce.

9 Turkey floats first *tranche* of the £T12 million internal loan.

In a broadcast speech, President Roosevelt made it clear that the gold clause had been definitely abandoned.

10 Austria suspends payments to the Bank for International Settlements for the service of the League loan.

12 Organising Committee — representing eight Governments — unanimously adopts the proposal for a Customs truce to begin at the opening of the Monetary and Economic Conference.

MAY 13 Greek Government defaults on payment of its debt to the United States.

Trade agreement between France and Canada. Canada announces new conversion loan of $375,000,000.

16 House of Commons approves Bill for an increase in Exchange Equalisation Fund to £350,000,000.

Issue of internal State loan for first year of second Five-year Plan in Russia.

President Roosevelt appeals to all Powers represented at Disarmament Conference and the Monetary and Economic Conference to bring about successful conclusion.

17 Herr Hitler addresses Reichstag on disarmament.

National Industrial Recovery Bill introduced into United States Congress.

Silver stocks in the United States estimated to be at the highest level ever reached.

18 Text of trade agreements between the United Kingdom and Norway and Sweden published.

Germany announces intention of paying her service on " gold loans " in paper currencies.

19 Germany accepts British plan " as a basis for future Disarmament Convention ".

20 Anglo-Norwegian trade agreement signed.

23 Anglo-Iceland trade agreement signed.

25 Negotiations of armistice between Japan and China.

26 Meeting of representatives of Germany's public and private foreign creditors in Berlin, to discuss transfer problem.

29 Wheat experts from the United States of America, Canada, Australia and Argentine meet in London to consider limitation of production.

MAY : During this month :

Wholesale prices began to rise in Germany, Austria, Belgium, United Kingdom and Sweden. Discount rates were reduced in South Africa, Danzig, New York, Norway, but increased in the Netherlands. Industrial shares began to rise in the Netherlands, Poland and the United Kingdom, but fell in Germany.

JUNE 1 Adjournment of Disarmament Conference.

2 Germany : Law for " regulating agricultural indebtedness " promulgated.

7 Four-Power Pact initialled in Rome.

JUNE 9 Moratorium on German external indebtedness officially announced as from July 1st.

12 Opening of Monetary and Economic Conference in London. Discussion in London between representatives of British, French and American Central Banks and Treasuries with a view to controlling exchanges during the Conference.

London Committee formed to protect interests of English long-term creditors in Germany.

13 The United Kingdom announces payment of 10 million dollars (in silver) in acknowledgment of war debt pending final settlement.

16 President Roosevelt signed National Industry Recovery Act.

The United States Congress adjourns till January next.

Agreement reached between Dr. Schacht and German creditors.

26 Conference at Tokio of representatives of Japan, Manchukuo and Soviet Union to discuss sale of Russian interest in the Chinese Eastern Railway.

27 Dollar-sterling rate falls from 4.20 to 4.29 ½.

28 New York closing rate 4.40 for £ — a fall of 5 per cent in two days.

30 Proposed joint declaration submitted for President Roosevelt's approval calling for monetary stability and re-establishment of gold standard — intended for signature by " gold " and " off gold " countries.

JUNE : During this month :

The rise in wholesale prices became practically worldwide.

JULY 3 Message from President Roosevelt rejecting immediate exchange stabilisation.

Declaration of adherence to gold standard signed by " gold bloc ".

5 Fifty-nine countries now recognise Customs truce.

6 British prisoners released in Russia and embargo on Russian goods removed.

8 Central Banks of six European gold standard countries, in collaboration with the Bank for International Settlements, at Bank of France, draw up Protocol covering measures to be taken should their currencies be threatened.

10 Negotiations for an Anglo-Russian trade agreement resumed by Board of Trade.

JULY

11 The United States of America cotton industry presents its code.

Monetary and Economic Conference decides to continue its work in connection with non-controversial subjects.

12 Supplementary agreement concluded between Germany and British Committee of long- and medium-term creditors.

13 New Australian Conversion Loan, interest at 4 per cent and redeemable in 1943-1948. Amount, £17,221,191.

15 France announces decision to repay half British credit three months in advance.

Trade agreement between Latvia and the United Kingdom.

The Netherlands: reduction of discount rate from 4 ½ to 4 per cent.

Hungary to meet coupons due on August 1st for League Loan of 1924, but unable to transfer full interest service in 1934.

16 Steel industry submits its code to President Roosevelt.

20 New British Loan conversion; 5 ½% Gold Bonds of 1932 into Treasury Bonds at 3 ½ per cent.

21 Meeting in Paris of China Committee of League Council to supervise the technical co-operation of the League with the Government of Nanking.

24 " Blanket code " introduced in the United States of America, to come into effect on August 1st, pending consideration of individual codes already presented.

27 Final plenary meeting of Monetary and Economic Conference.

29 Hungary announced internal loan of 20 million pengö to cover budget deficit.

INDEX